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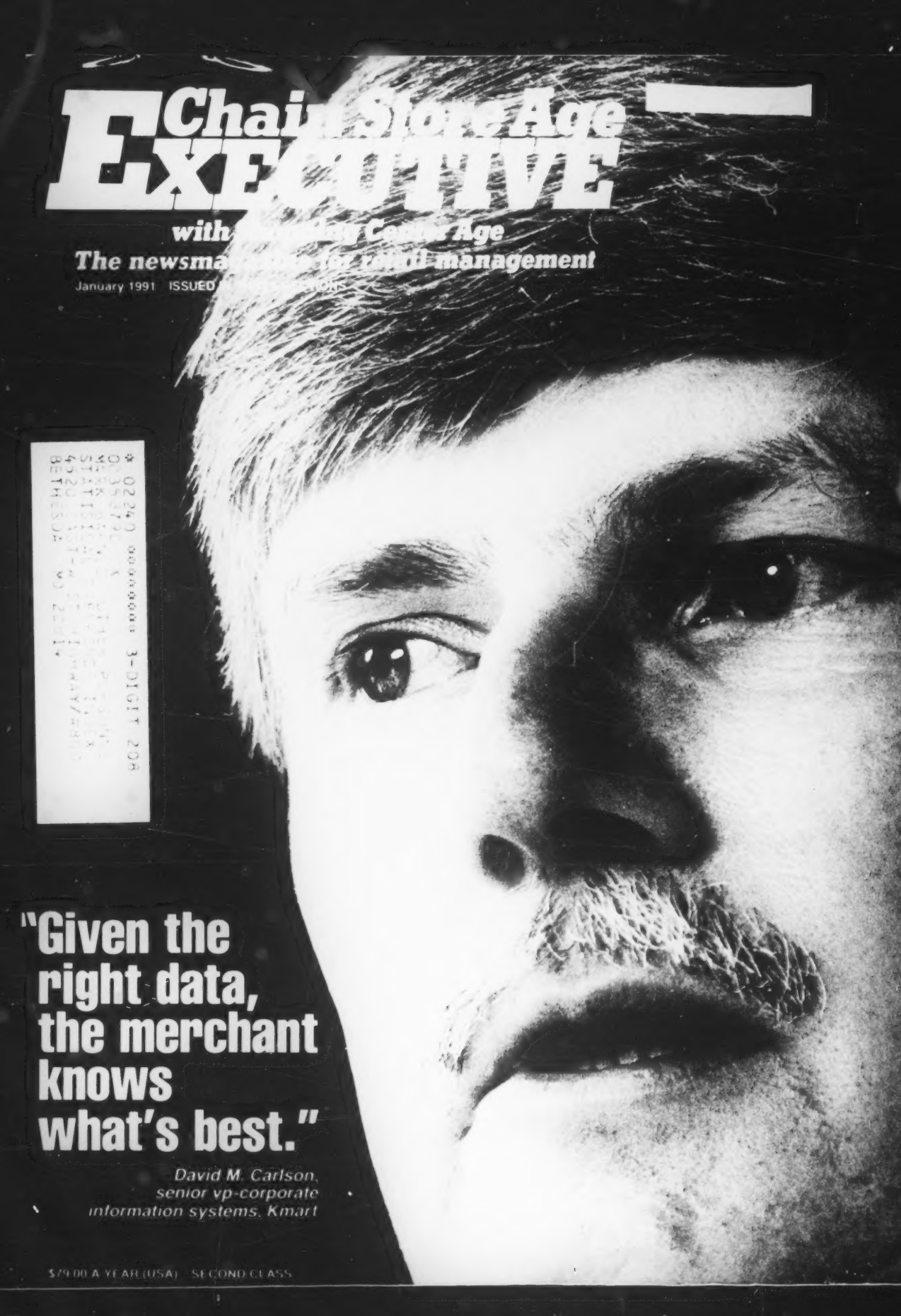

"Given the right data, the merchant knows what's best."

David M. Carlson, senior vp-corporate information systems, Kmart

$79.00 A YEAR (USA) SECOND CLASS

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NOVEMBER SLUMP AFFECTS EVEN WAL-MART

STELLAR PERFORMER NOT IMMUNE TO ECONOMY'S ILLS

The nation's major retailers reported weak sales for November, continuing a pattern that has been evident for several months.

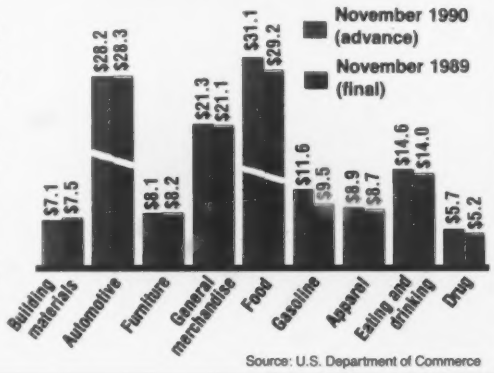
Even Wal-Mart, long a stand-out performer when others have lagged, posted a marked drop in November's same-store sales growth (7%) compared with 1989 (12%). It was one of the rare months that Wal-Mart failed to show a double-digit same-store sales increase.

Of course, the 7% increase was low only by Wal-Mart's standards. Other large retailers fared much worse. Sears reported a 2.4% fall in comparable-store sales, and a 1.6% decline in overall revenues. Kmart reported a 1.5% fall in same-store sales, although its overall revenues increased 5.1%.

Analysts said stores were suffering from reduced consumer confidence brought on by higher gasoline and heating-oil prices, fear of war in the Persian Gulf and the onset of a recession. A heavy fall in retail industry earnings for the Christmas shopping season was deemed likely.

NOVEMBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	November '90 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Sears	$3,099,925	– 1.6	– 2.4	$27,481,466	+ 2.1	+ 2.1
K mart	2,874,639	+ 5.1	– 1.5	25,196,778	+11.0	+ 1.8
Wal-Mart	3,221,000	+21.8	+ 7.0	25,464,000	+25.1	+10.0
Penney	1,508,000	– 3.1	– 4.6	11,984,000	+ 0.9	– 0.3
Dayton Hudson	1,550,000	+37.4	+ 3.4	11,250,000	+16.5	+ 6.8
May	964,500	– 0.2	– 5.0	7,715,200	+ 6.3	+ 1.4
Melville[1]	886,251	+17.1	+ 4.6	7,335,253	+13.2	+ 9.5
Walgreen[1]	541,945	+10.9	+ 7.1	5,513,653	+11.9	+ 7.3
Woolworth	476,000	+ 4.9	+ 1.3	4,332,000	+ 7.4	+ 3.9
The Limited	508,500	+24.0	+ 4.0	4,018,000	+17.0	+ 5.0
Carter Hawley Hale	272,000	+ 4.4	+ 2.3	2,080,000	+ 2.1	+ 0.7
Mercantile	253,401	N/C	– 3.0	1,844,721	+ 1.7	+ 0.3
Circuit City[2]	231,900	+11.0	+ 6.0	1,640,400	+16.4	N/R
Hills	264,600	+15.7	+13.3	1,731,800	+ 9.4	+ 5.9
The Gap	180,000	+18.4	+ 6.0	1,490,000	+22.1	+15.0
Rose's	191,628	+ 0.8	– 2.7	1,243,198	+ 2.7	+ 0.7
Neiman-Marcus Group[3]	165,900	+ 2.5	– 2.8	591,900	+ 3.9	– 2.2
Venture Stores	153,000	+21.1	+ 5.0	1,094,200	+ 8.8	+ 5.0
Edison Bros.[1]	119,100	+20.1	N/R	950,800	+17.3	N/R
Charming Shoppes	80,500	+18.2	+11.0	709,600	+11.4	+ 4.0
Jamesway	105,078	+21.1	+13.0	726,239	+11.0	+ 5.0
Ross	86,000	+22.9	+ 4.0	637,000	+ 9.1	– 3.0
Dollar General	63,900	+ 8.3	+ 3.3	517,600	+ 6.0	+ 1.9
Best Buy[4]	65,000	+16.0	– 6.0	449,000	+25.0	N/R
Gottschalks	34,100	+41.7	+25.1	213,400	+27.3	+12.5
Gantos	24,600	+18.3	N/C	206,800	+12.4	– 3.0
Claire's	23,880	+17.0	N/C	190,660	+43.0	+10.0

[1]fiscal year ends Dec. 31 [2]fiscal year ends Feb. 28 [3]fiscal year ends July 31 [4]fiscal year ends Mar. 31 N/R = not reported N/C = no change Source: Company reports

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CONTENTS

A total of 160 companies participated in the Twelfth Annual Ounce of Prevention survey. These retailers supplied us with information on shrinkage, loss prevention expenses, apprehensions, the physical inventory process and the most effective security devices. This information has been detailed in this report, and the result is Ernst & Young's complete analysis of loss prevention. The co-sponsor of the survey is the International Mass Retail Association.

The report begins with a section on overall findings and continues with separate sections by segment. To bring our statistics to life, we have also produced case studies on loss prevention strategies at The Broadway and Saks Fifth Avenue, as well as an account of a unique "sting" operation in the Chicago area. An appendix containing additional material appears at the end of this report.

We would like to express our gratitude to the executives who participated in this study.

Highlights and Methodology

Overall Findings

Department Stores

Drug Chains

General Merchandise/ Mass Merchants

Specialty: Apparel

Specialty: Hardlines

Supermarkets

Case Study: The Broadway

Case Study: Saks Fifth Avenue

Case Study: Chicago Crime Story

Appendices

Acknowledgments

HIGHLIGHTS AND METHODOLOGY

The cost of shrinkage and loss prevention remains at an all-time high. In 1989, our survey participants spent $363.5 million, or 0.32% of sales, trying to prevent shrinkage, yet their shrink losses were 1.91% of sales at retail.

As you read the survey, please keep the following points in mind:

- The pool of retailers who participate in this survey changes from year to year. Therefore, it is not accurate to compare data published in this report to data present in past surveys.
- Some participants did not answer every question. Therefore, it may not be accurate to compare data in one table to data in another table. Questionnaires that were substantially incomplete were not tabulated.
- Because some of the questions allowed multiple answers, tallied responses do not always total 100%.
- The individual participant data is confidential; survey responses were received and reviewed only by Ernst & Young.

	PARTICIPANTS BY 1989 SALES VOLUME*						
	All Participants	Under $100	$100 to $399	$400 to $999	$1,000 or More	1989 Sales Total	1989 Sales Average
Total Number of Survey Participants	160	53	42	27	38	$192,524	$1,203
Department Stores	22	4	9	5	4	13,933	633
Drug Chains	10	1	1	—	8	24,388	2,439
General Merchandise/ Mass Merchants	27	5	8	4	10	101,005	3,741
Specialty Apparel	21	11	5	3	2	7,334	349
Specialty Hardlines	37	19	10	3	5	12,198	330
Supermarkets	19	6	2	7	4	19,884	1,047
Other	24	7	7	5	5	13,782	574

*All dollar amounts are in millions.

	Average Shrinkage as a Percentage of Sales				Average Loss Prevention Expenses as a Percent of Sales	Average Cost of Physical Inventory Taking per Company (in $ thousands)	Average Value of Merchandise Recovered at Retail per Apprehension in 1989 From	
	At Retail		At Cost					
	1989	1988	1989	1988	1989	1989	Employees	Customers
All Participants	1.91%	1.88%	1.20%	1.20%	0.32%	$1,218	$1,350	$196
Department Stores	2.18	2.37	—	—	0.54	1,273	650	165
Drug Chains	2.33	2.18	2.13	2.05	0.22	4,752	349	48
General Merchandise/ Mass Merchants	1.82	1.80	1.01	0.76	0.33	2,362	801	87
Specialty Apparel	1.84	1.67	1.85	—	0.39	206	3,044	225
Specialty Hardlines	1.98	1.58	0.70	0.67	0.17	673	2,378	375
Supermarkets	0.93	1.05	1.38	1.50	0.22	547	592	107

OVERALL FINDINGS

One hundred sixty companies responded to this year's survey: 22 department stores, 10 drug chains, 27 mass merchants, 21 specialty apparel chains, 37 specialty hardliners, and 19 supermarkets. In addition, there were 24 mail order companies and other specialty retailers. In 1989, 38 of these companies had sales of $1 billion or more, 27 had sales in the range of $400 million to $999 million, 42 had sales in the $100 million to $399 million range, and 53 had sales of less than $100 million.

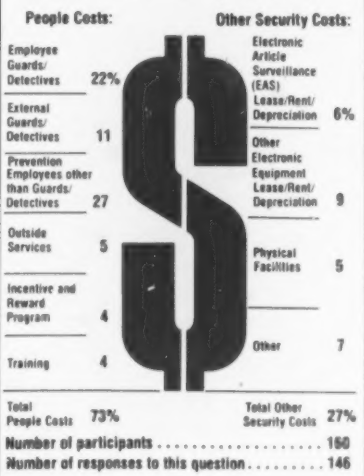
The respondents had an average of 264 stores/outlets. Department stores had the lowest average number of stores with 44, and drug chains had the highest average with 674 stores per company.

Expenses and Capital Expenditures

On a same-respondent basis, loss-prevention expenses as a percentage of sales increased to 0.33% in 1989 from 0.31% in 1988. Companies with revenues of $1 billion or more had the lowest expenses as a percentage of sales in 1989—0.28%. Companies with revenues of $400 million to $999 million had the highest expenses at 0.35% of sales. Capital expenditures averaged $340,000 per company (based on 131 respondents) in 1989. On a same-respondent basis, capital expenditures increased by seven percent in 1989. EAS accounted for the greatest percentage of overall capital expenditures. This year it accounted for 38%, though it did decline from the 1988 figure of 41%. Alarms accounted for 27% and other electronic equipment accounted for 30%.

	All Participants		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	160	160	53	53	42	42	27	27	38	38
Average Expenses as a Percent of Sales	0.32% (147)	0.31% (142)	0.34% (46)	0.29% (44)	0.33% (38)	0.34% (35)	0.35% (26)	0.32% (26)	0.28% (37)	0.27% (37)
Average Expenses (in $ thousands)	$2,473 (147)	$2,161 (140)	$148 (47)	$120 (44)	$724 (37)	$692 (34)	$2,145 (26)	$1,933 (25)	$7,406 (37)	$6,090 (37)
Total Expenses (in $ thousands)	$363,504 (147)	$302,514 (140)	$6,945 (47)	$5,301 (44)	$26,776 (37)	$23,535 (34)	$55,761 (26)	$48,335 (25)	$274,022 (37)	$225,343 (37)

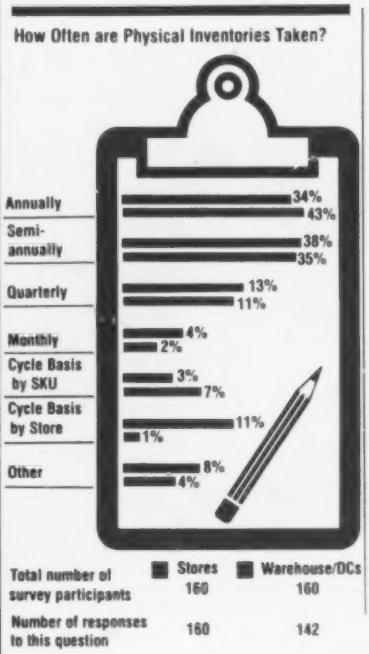
( ) = Number of responses to this question.


Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/ Detectives 22%
External Guards/ Detectives 11
Prevention Employees other than Guards/ Detectives 27
Outside Services 5
Incentive and Reward Program 4
Training 4
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation 6%
Other Electronic Equipment Lease/Rent/ Depreciation 9
Physical Facilities 5
Other 7
Total People Costs 73%
Total Other Security Costs 27%
Number of participants 150
Number of responses to this question 146

People costs accounted for the lion's share of loss prevention expenses—73%. Internal and external labor accounted for over 50% of loss-prevention expenses at every segment except specialty apparel stores, where the figure was 48%. People costs include labor for employee and external guards/detectives, other loss prevention employees, outside services, incentive and reward programs, and training programs.

For repondents with revenues below $100 million, people costs accounted for 62% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 81%; for companies in the $400 million-$999 million range, their costs were 73%; and for companies with revenues over $1 billion, people costs accounted for 78% of loss prevention expenses.

OVERALL FINDINGS



Physical Inventory Approaches

A critical internal control in the inventory management process is the taking of a physical inventory. Because physical inventory-taking practices are diverse, Ernst & Young conducted an in-depth survey of this area for the first time.

Seventy-two percent of our participants took physical inventories annually or twice a year. In the warehouse/DC, 78% of the 142 companies responding to this question took inventory once or twice a year. In the warehouse/DC, 54 respondents took inventory in one day, 13 took it in one-and-a-half days, 29 took it in two days, and 14 took it in three days. Twenty-four respondents with warehouses under 75,000 feet took it in one day; 10 respondents with warehouses 75,000-150,000 feet took it in one day and nine took two days; 11 respondents with warehouses 151,000-350,000 feet took it in one day and eight took it in two days; and nine respondents with warehouses more than 350,000 feet took it in one day while nine others took two days.

Of the 148 companies responding, 110 took store inventory in one day or less. Seventy-five percent of respondents with stores 20,000 to 49,999 feet performed the physical in one day or less; 79% of respondents with stores 50,000 to 99,999 feet completed it in one day; 71% of respondents with stores 7,500 to 19,999 feet performed it in one day or less; and 80% of respondents with stores under 2,500 feet took it in one day or less.

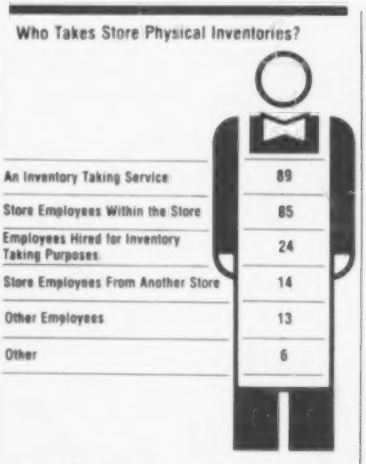
Participants by Retail Store Size in Square Feet	Number of Days							
	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	2	10	2	—	1	—	—	15
2,500 to 7,499	3	18	3	2	—	—	—	26
7,500 to 19,999	5	17	5	4	—	—	—	31
20,000 to 49,999	4	26	2	4	—	4	—	40
50,000 to 99,999	—	22	1	3	1	—	1	28
100,000 or More	—	3	2	3	—	—	—	8
All Participants	14	96	15	16	2	4	1	148
Under 75,000	NA	24	3	3	—	—	—	30
75,000 to 150,000	NA	10	2	9	1	2	1	25
151,000 to 350,000	NA	11	4	8	3	5	—	31
Over 350,000	NA	9	4	9	3	7	3	35
All Participants	NA	54	13	29	7	14	4	121

NA = not applicable.

OVERALL FINDINGS

Participants by Retail Store Size In Square Feet	Average	Minimum	Maximum
Under 2,500	11 (15)	1 (4)	85 (1)
2,500 to 7,499	8 (26)	1 (1)	20 (1)
7,500 to 19,999	18 (30)	3 (1)	70 (1)
20,000 to 49,999	31 (40)	5 (1)	120 (1)
50,000 to 99,999	75 (28)	2 (1)	200 (2)
100,000 or More	168 (8)	85 (1)	300 (1)
All Participants	38 (147)	1 (5)	300 (1)
Participants by Warehouse Size In Square Feet			
Under 75,000	17 (31)	2 (2)	100 (1)
75,000 to 150,000	37 (25)	3 (1)	140 (1)
151,000 to 350,000	57 (31)	8 (1)	360 (1)
Over 350,000	89 (35)	10 (1)	300 (1)
All Participants	52 (122)	2 (2)	360 (1)

Total number of survey participants 160
( ) = Number of responses to this question.


Who Takes Store Physical Inventories?
An Inventory Taking Service 89
Store Employees Within the Store 85
Employees Hired for Inventory Taking Purposes 24
Store Employees From Another Store 14
Other Employees 13
Other 6
Number of participants 160
Number of responses to this question 160

Overall, it took an average of 38 people to perform a store's physical inventory. Respondents with stores averaging 100,000 feet or more used an average of 168 people to perform an inventory. For stores under 2,500 feet, it took an average of 11 people.

An average of 52 people were utilized for warehouse physical inventories. It took an average of 89 people to take inventory in a warehouse over 350,000 feet, and an average of 17 people for a warehouse under 75,000 feet.

Fifty-six percent of all respondents utilized an outside service for taking store inventories. Store employees from within the store were utilized by 53% of respondents, while 15% used employees hired for inventory-taking purposes.

RGIS continues to be the most frequently used inventory-taking service; 70 of 87 respondents reported using them for store inventory last year, and 22 of 31 respondents used them for the warehouse. Washington is number-two overall, with 38 repondents using them for store physicals and six using them for the warehouse. Two respondents used Capital for store physicals and one used this company for the warehouse.

OVERALL FINDINGS

		Participants by 1989 Sales Volume in $Millions			
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	160	53	42	27	38
Number of Responses to this Question	128	45	33	17	33
Under $50,000	32	25	4	2	1
$50,000 to $199,999	30	18	11	1	—
$200,000 to $999,999	37	2	16	11	8
$1,000,000 or more	29	—	2	3	24
Average Cost of Physical Inventory Taking (in $ thousands)	$1,218	$67	$285	$483	$4,097

The total cost of physical inventories (for 128 respondents) was $156 million, an average of $1,218,000. Fifty-six percent of those costs were internal. For companies with revenues of $1 billion or more, the average cost was $4,097,000. For companies with revenues of $400 million-$999 million, the average cost was $483,000. For companies with revenues of $100 million-$399 million, the average cost was $285,000. And for companies with revenues under $100 million, the average cost was $67,000.

The high-shrink department in our survey was fashion accessories and costume jewelry, at 7.57% of sales. The low-shrink departments were men's apparel and shoes, both at 1.84%.

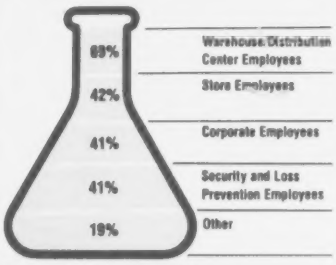
What is the Highest Shrinkage Department?

	Ladie's Apparel	Men's Apparel	Juniors	Health and Beauty Aids	Fine Jewelry	Shoes	Fashion Accessories and Costume Jewelry	Toys, Hobbies and Games	Records, Cassettes, CDs and Videotapes	Radios, Televisions and Stereos	Sporting Goods
Shrinkage Percentage	2.44%	1.84%	2.65%	3.51%	4.71%	1.84%	7.57%	2.10%	4.13%	3.37%	3.44%
Number of respondents	47	47	37	36	23	33	43	32	24	37	25

Total number of survey participants 160

OVERALL FINDINGS

On Which Employees is Drug Testing Performed?



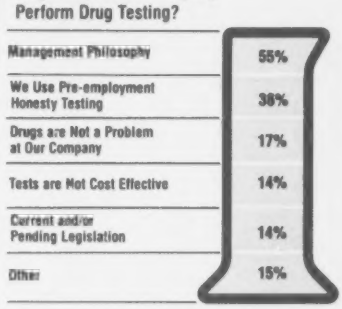
Total number of survey participants 160
Number of responses to this question 64

When is Drug Testing Performed?

Pre-employment Screening	81%
Only When Suspicion Exists	42%
Periodic Testing	19%
Other	13%

Total number of survey participants 160
Number of responses to this question 62

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants 160
Number of responses to this question 99

Drugs in the Workplace

Sixty-four respondents tested their employees for drugs last year. Warehouse/DC employees were tested at 69% of these companies, store employees were tested at 42%, corporate employees were tested at 41%, and security and loss prevention employees were tested at 41%.

When testing was performed, 81% tested during preemployment screening, 42% tested only when suspicion existed, and 19% tested periodically.

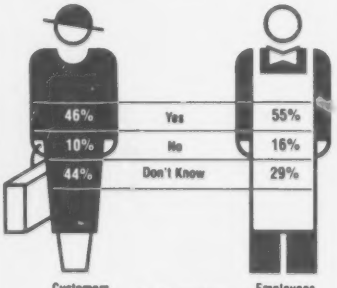
When asked why they don't test for drugs, most (55%) respondents said management was philosophically opposed to it, 36% said they use preemployment honesty testing, 17% said drugs are not a problem at their company, 14% said tests are not effective, and 14% cited current and/or pending legislation.

Forty-six percent said there was evidence that customer thefts were drug related; 55% said there was evidence that employee thefts were drug related. Forty-four percent of retailers did not know about the customers; 29% did not know about their employees.

How did they know? At 62% of the respondents, employees confessed; at 27% of the companies, customers confessed that he or she had been using drugs. Thirteen percent said the behavior of the employee provided the evidence. Where customers were concerned, 25% cited behavior.

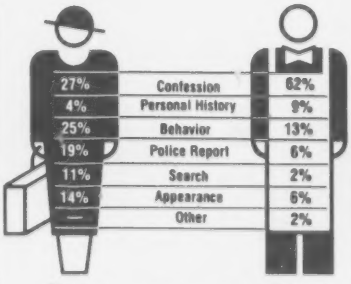
The police were involved or notified in 57% of the employee and 79% of the customer apprehensions. Sixty percent of the retailers prosecuted apprehended employees and 75% prosecuted customers.

Was There Any Evidence That Thefts Were Drug Related?



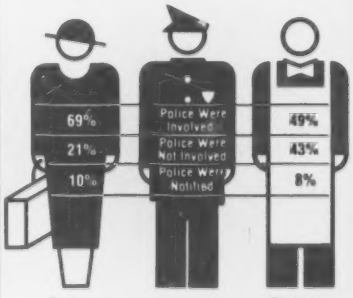
Customers	Total number of survey participants	Employees
160		160
149	Number of responses to this question	155

How Did You Know Thefts Were Drug Related?



Customers	Total number of survey participants	Employees
160		160
60	Number of responses to this question	80

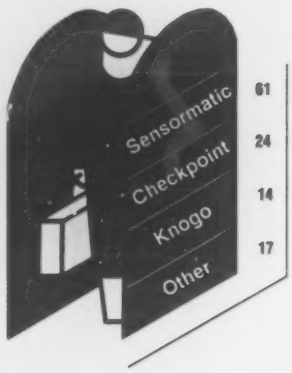
Were Police Involved in Apprehensions?



Customers	Total number of survey participants	Employees
160		160
58	Number of responses to this question	79

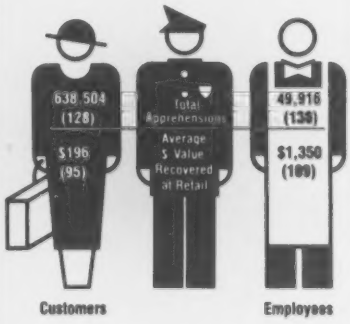
OVERALL FINDINGS

What Brand of EAS Equipment are Retailers Using?
(in $ millions)



Total number of survey participants 160
Number of responses to this question 77

Apprehensions and Dollars Recovered



Total number of survey participants 160

( ) = Number of responses to this question

EAS

Sensormatic EAS equipment was the most popular brand with all segments but supermarkets, where Checkpoint was number one, and drug chains, where it was tied with Checkpoint for number one.

Apprehensions

While customers apprehended outnumbered employees apprehended by almost 13 to 1, the value of merchandise recovered was seven times greater for employees—an average of $1,350 per apprehended employee vs. an average of $196 per apprehended customer.

In 1989, the majority of respondents (55%) sought civil restitution from apprehended customers and employees in the states where it is legal. More than 75,000 cases were attempted and nearly 26,000 were settled. But, the average recovery per company was only $105,000.

DEPARTMENT STORES

Twenty-two department stores participated in this year's study. Four had 1989 revenue of more than $1 billion, five had sales in the $400 million to $999 million range, nine had sales in the $100 million to $399 million range, and four had sales below $100 million.

The 22 retailers operated an average of 44 stores. Together, they operated a total of 971 stores.

Expenses and Capital Expenditures

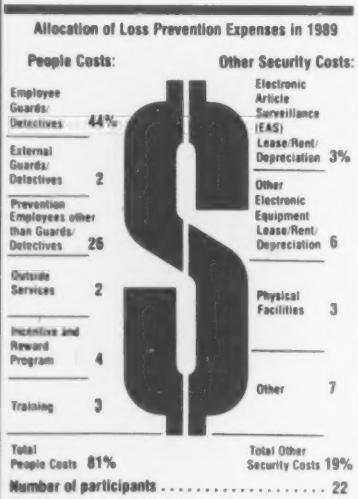
The department store respondents spent $73,159,000 on loss prevention in 1989. On average they spent $3,658,000 or 0.54% of sales. In 1988, the same retailers spent an average of 0.53% of sales.

Department stores with revenues of $1 billion or more had expenses averaging $10,204,000, or 0.47% of sales, in 1989. Companies in the $400-$999 million range averaged $4,807,000, or 0.77% of sales. Stores in the $100 million to $399 million range averaged $1,096,000, or 0.47% of sales. And companies under $100 million averaged $159,000, or 0.47% of sales.

Total capital expenditures in 1989 rose an extraordinary 103% to $6,936,000, or $365,000 per respondent. EAS accounted for 20% of capital expenditures, other electronic equipment accounted for 63%, and alarms accounted for 15%.

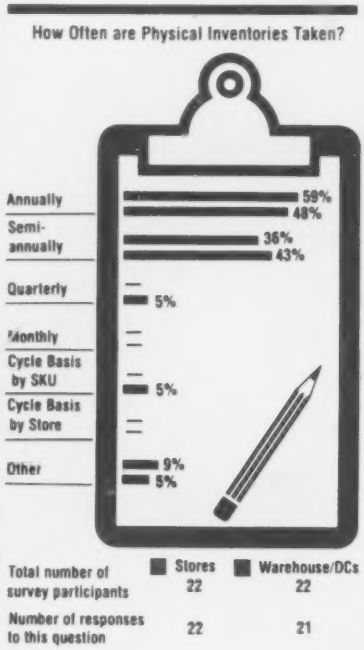
	All Department Stores		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	22	22	4	4	9	9	5	5	4	4
Average Expenses as a Percent of Sales	0.54% (20)	0.53% (20)	0.47% (4)	0.47% (4)	0.47% (7)	0.48% (7)	0.77% (5)	0.68% (5)	0.47% (4)	0.46% (4)
Average Expenses (in $ thousands)	$3,658 (20)	$3,230 (20)	$159 (4)	$160 (4)	$1,096 (7)	$1,035 (7)	$4,807 (5)	$4,014 (5)	$10,204 (4)	$9,163 (4)
Total Expenses (in $ thousands)	$73,159 (20)	$64,603 (20)	$634 (4)	$640 (4)	$7,672 (7)	$7,243 (7)	$24,036 (5)	$20,070 (5)	$40,817 (4)	$36,650 (4)

( ) = Number of responses to this question.


Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/ Detectives 44%
External Guards/ Detectives 2
Prevention Employees other than Guards/ Detectives 26
Outside Services 2
Incentive and Reward Program 4
Training 3
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation 3%
Other Electronic Equipment Lease/Rent/ Depreciation 6
Physical Facilities 3
Other 7
Total People Costs 81%
Total Other Security Costs 19%
Number of participants 22
Number of responses to this question 20

More than 80% of their loss-prevention dollars were allocated to people costs, with internal and external labor accounting for more than 70%. For respondents with revenues below $100 million, people costs accounted for 77% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 82%; for companies in the $400 million-$999 million range, their costs were 80%; and for companies with revenues over $1 billion, people costs accounted for 86% of loss prevention expenses.

DEPARTMENT STORES



Physical Inventory Approaches

Fifty-nine percent of respondents took their store's physical inventory once a year and 36% took it twice. Forty-eight percent took their warehouse and distribution center's inventory annually; 43% took it two times a year.

Of the 20 department store respondents, 14 took store physical inventories in one day and four completed it in two days. In the warehouse/DC, seven respondents took inventory in one day, four took it in two days and two took it in three days.

Three respondents with stores over 100,000 feet completed it in one day and two performed it in two days; eight respondents with stores 50,000-99,999 feet completed it in one day; and two respondents with stores 20,000-49,999 feet completed it in one day.

Department Stores by Retail Store Size in Square Feet	Number of Days							
	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	—	1	—	—	—	—	—	1
2,500 to 7,499	—	—	—	—	—	—	—	—
7,500 to 19,999	—	—	—	—	—	—	—	—
20,000 to 49,999	—	2	—	1	—	—	—	3
50,000 to 99,999	—	8	1	1	—	—	—	10
100,000 or More	—	3	1	2	—	—	—	6
All Department Stores	—	14	2	4	—	—	—	20
Under 75,000	NA	2	—	1	—	—	—	3
75,000 to 150,000	NA	2	—	1	—	—	—	3
151,000 to 350,000	NA	3	—	1	—	1	—	5
Over 350,000	NA	—	—	1	1	1	2	5
All Department Stores	NA	7	—	4	1	2	2	16

Total number of survey participants 22

NA = not applicable.

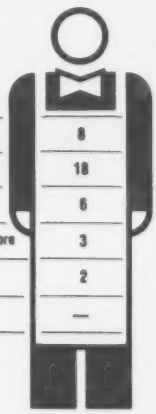
DEPARTMENT STORES

HOW MANY PEOPLE DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY?

Under 2,500	**85** (1)	**85** (1)	**85** (1)
2,500 to 7,499	— —	— —	— —
7,500 to 19,999	— —	— —	— —
20,000 to 49,999	**40** (3)	**35** (1)	**45** (1)
50,000 to 99,999	**107** (10)	**40** (2)	**200** (2)
100,000 or More	**185** (6)	**110** (1)	**300** (1)
All Department Stores	**119** (20)	**35** (1)	**300** (1)
Under 75,000	**33** (3)	**23** (1)	**45** (1)
75,000 to 150,000	**43** (3)	**25** (1)	**75** (1)
151,000 to 350,000	**38** (5)	**20** (1)	**50** (2)
Over 350,000	**105** (5)	**40** (1)	**200** (1)
All Department Stores	**59** (16)	**20** (1)	**200** (1)

Total number of survey participants 22
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	8
Store Employees Within the Store	18
Employees Hired for Inventory Taking Purposes	6
Store Employees From Another Store	3
Other Employees	2
Other	—

Number of participants 22

Number of responses to this question 22

An average of 119 people per store were needed to perform physical inventories. Companies with stores over 100,000 feet used an average of 185 people. Companies with stores 50,000-99,999 feet used 107 people. For stores 20,000-49,000 feet, it took 40 people.

In the warehouse/DC, an average of 59 people were needed to take inventory. It took an average of 105 people to take inventory in a warehouse over 350,000 feet, 38 people to perform it in a warehouse 151,000-350,000 feet, 43 people to take it in a 75,0000-150,000 foot warehouse, and 33 people to take it in a facility under 75,000 feet.

Store employees took their store's inventory at 82% of the department stores. An inventory-taking service was hired at 36% of the stores, and 27% hired employees for inventory purposes only. Store employees from another store took inventory at 14%.

Of the stores that used an inventory-taking service, 88% used RGIS and 50% used Washington. One hundred percent used RGIS in the warehouse, while 33% used Washington.

DEPARTMENT STORES

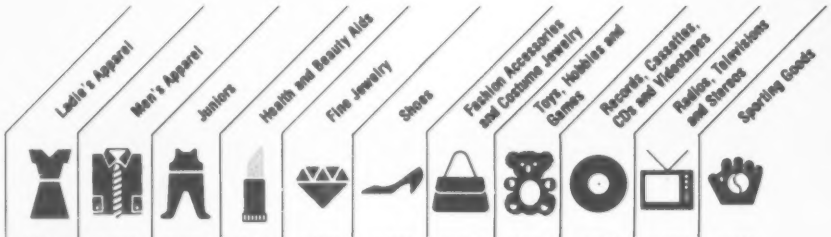
	All Department Stores	Participants by 1989 Sales Volume in $Millions			
		Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	22	4	9	5	4
Number of Responses to this Question	16	3	6	4	3
Under $50,000	3	2	1	—	—
$50,000 to $199,999	1	—	1	—	—
$200,000 to $999,999	8	1	4	2	1
$1,000,000 or more	4	—	—	2	2
Average Cost of Physical Inventory Taking (in $ thousands)	$1,273	$126	$236	$819	$5,100

The average cost of taking inventory was $1,273,000 per department store. For companies with revenue of $1 billion or more, the average cost was $5,100,000. For department stores with revenues of $400 million-$999 million, the average cost was $819,000. For companies with revenue of $100 million-$399 million, the average cost was $236,000. And for companies with revenues under $100 million the average cost was $126,000.

The high-shrink department was records, cassettes, CDs and videos, at 5.53% of sales.

The low-shrink department was shoes, at 1.50% of sales.

What is the Highest Shrinkage Department?

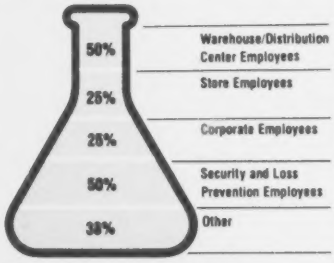


	Ladie's Apparel	Men's Apparel	Juniors	Health and Beauty Aids	Fine Jewelry	Shoes	Fashion Accessories and Costume Jewelry	Toys, Hobbies and Games	Records, Cassettes, CDs and Videotapes	Radios, Televisions and Stereos	Sporting Goods
Shrinkage Percentage	2.78%	2.19%	2.84%	1.73%	1.68%	1.50%	5.41%	2.42%	5.53%	3.86%	2.95%
Number of respondents	19	19	18	9	5	10	19	9	4	12	4

Total number of survey participants 22

DEPARTMENT STORES

On Which Employees is Drug Testing Performed?



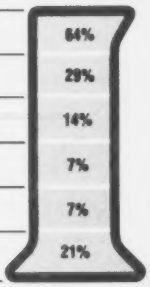
Total number of survey participants 22
Number of responses to this question 8

When is Drug Testing Performed?

Pre-employment Screening	100%
Only When Suspicion Exists	33%
Periodic Testing	33%
Other	17%

Total number of survey participants 22
Number of responses to this question 6

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants 22
Number of responses to this question 14

Drugs in the Workplace

Only eight of our department store respondents said they did drug testing last year. Warehouse/DC and security and loss prevention employees were tested at half the companies, store employees were tested at two, and corporate employees were tested at two.

Testing was performed during preemployment screening at all six of the companies responding to this question. Two of the respondents tested periodically, and two tested only when suspicion existed.

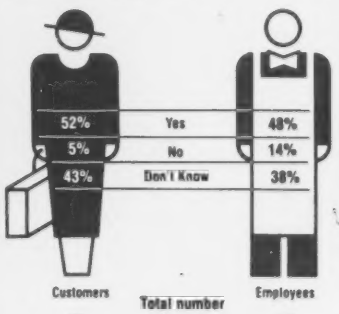
When asked why they didn't test, 64% of 14 respondents cited "management philosophy," 29% said they used preemployment honesty testing, and 14% said drugs were not a problem at their company.

Fifty-two percent said there was evidence that customers caught stealing had been using drugs. Forty-three percent didn't know. Where employee theft was concerned, 48% believed drugs were involved and 38% didn't know.

Where employees were concerned, their evidence was based on confession at 59% of respondents and behavior at 21%. Where customers were concerned, behavior provided the evidence at 30% of respondents, confessions were the evidence at 28%, a search yielded evidence at 18%, and appearance convinced them at 16%.

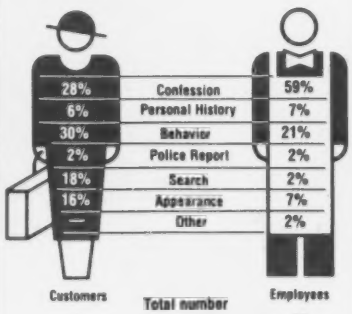
The police were involved in 80% of the customer and 53% of the employee apprehensions. They were notified in 10% of customer and 18% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



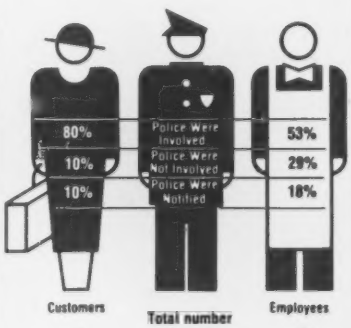
Customers	Total number of survey participants	Employees
22		22
21	Number of responses to this question	21

How Did You Know Thefts Were Drug Related?



Customers	Total number of survey participants	Employees
22		22
10	Number of responses to this question	9

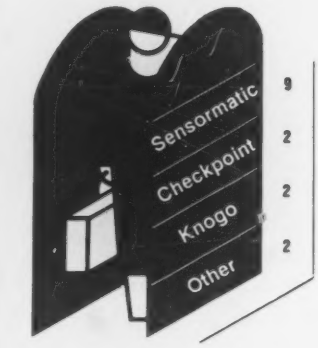
Were Police Involved in Apprehensions?



Customers	Total number of survey participants	Employees
22		22
10	Number of responses to this question	9

DEPARTMENT STORES

What Brand of EAS Equipment are Retailers Using?
(In $ millions)

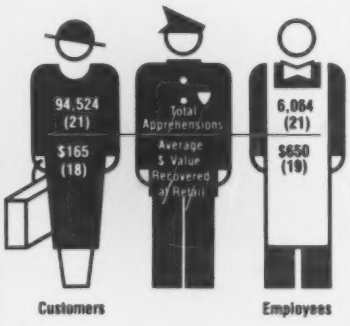


Total number of survey participants 22
Number of responses to this question 12

EAS

Seventy-five percent of respondents used Sensormatic EAS equipment, 17% used Knogo and 17% used Checkpoint.

Apprehensions and Dollars Recovered



Total number of survey participants 22
( ) = Number of responses to this question

Apprehensions

Department stores apprehended 100,588 shoplifters in 1989; 94% of them were customers and 6% were employees. In 1988, retailers apprehended 85,518 shoplifters, 91% of which were customers.

In 1989, the value of the merchandise recovered from apprehended customers was $165 per customer. The value of recovered merchandise stolen by employees was an eye-opening $650.

Fifty-seven percent of department stores sought civil restitution from apprehended customers and employees in 1989. More than 12,000 cases were attempted and more than half were settled, and $1,176,000 was recovered. An average of $131,000 was recovered per respondent. In 1988, almost 8,000 cases were attempted and more than half settled at an average recovery of $63,000.

CASE STUDY: THE BROADWAY

Broadway Gets Theatrical to 'Stop Our Shortages'

The Broadway: A division of Carter Hawley Hale
Region: Southern California
Number of stores: 43
Annual revenue: $1.3 billion

Stay Tuned In With...
THE BROADWAY KSOS
Retail Radio Program!
KSOS
Krazy Kirk says, "Help stop our shortages and share our savings."

You don't normally associate loss prevention with radio stations, rock videos and comic books. But that's exactly what The Broadway has been doing since the fall of 1989, when it started a popular and successful awareness program that has come to be known as KSOS.

According to Rose Culp, The Broadway's loss-prevention training manager, KSOS grew out of Stop Our Shortage and Satisfy Our Shoppers (SOS), an awareness program that used to run for just two weeks a year.

Culp, Jim Lee, vp-loss prevention, and J.W. Fogg, divisional vp-loss prevention, were brainstorming one day, trying to plan the next SOS program, when they decided to do something new—something that would communicate directly with the store's sales associates in a way that would engage them and, of course, motivate them to help control shrinkage.

"Somebody said 'radio,'" says Culp, and an inspired idea was born. "We came up with a fictitious radio station called KSOS, because here in California radio station call letters begin with K." It would be fun, they decided—an upbeat concept that the store's many young sales associates could relate to. And, they hoped, it would be ongoing—a program that maintains a level of awareness that most on-again, off-again programs do not.

"Station management" responsibilities fell to Culp, and she started, as station managers often do, by recruiting a personality—in this case a Broadway security manager named Kirk Palchefsky, who called himself "Krazy Kirk."

A boffo debut: Kirk debuted a few weeks later as host of a call-in contest on KSOS. The shrinkage goal at the time was two percent of sales, so they hooked up telephones and had sales associates call 2020 and answer shortage-related questions put to them by Kirk. The one-day contest generated 2,000 calls, and as Culp says, "we knew we'd come up with a pretty good idea."

Their next move was to recruit some musical employees and form a rock band. Using the resources of The Broadway's internal communications department, they produced a music video featuring Krazy Kirk called "Savin' at The Broadway." A followup, "Takin' Care of Shortage," was quickly recorded and "simulcast" on KSOS.

Next was a print program featuring a "mystery item." Every six weeks they distributed a pamphlet (with Kirk's picture on it) with the headline "Krazy Kirk Wants You To Know." The booklet contained information on a particular aspect of loss-prevention, a quiz related to the theme, and a concealed "mystery item."

The first pamphlet was based on price changes—the importance of doing them accurately and on time. Employees did the price-change quiz, tried to guess what the mystery item was, and dropped their completed quiz in their store's KSOS box. Some 3,500 employees participated and about 400 people won prizes like sunglasses, duffle bags and sport bottles.

The second pamphlet was based on shoplifting and customer service. This time 6,000 employees participated (about half the total), and many of them won the mystery item prize.

CASE STUDY: THE BROADWAY

With momentum building, they did a third pamphlet last spring. This one tackled employee theft and generated the biggest response to date.

Team Shortage: At about this time, the KSOS team rolled out yet another program element—a comic book series. Turning again to the internal communications department, they produced Team Shortage comics.

Complete with a villain named Dr. Shortage and three hero-DJs from KSOS, including Krazy Kirk, the comics cover loss-prevention issues using familiar superhero scenarios. In the first one, Dr. Shortage uses his brain-scrambling machine to foul up the sales associates doing price changes. Our heroes transform themselves into Team Shortage to defeat the doctor. The second book, about employee theft, has the DJs thwarting a "sticky-fingered" Dr. Shortage.

The result of all this, says Rose Culp, is that employees are getting the message. "Our people have been drawn to it," she says. "Kirk now makes appearances in our stores, and you'll see people dancing on tables at 8:00 a.m. They're involved, and that translates into greater awareness."

Does it translate into lower shrinkage? "It's difficult to say what the direct effect of KSOS has been," she says. But the numbers have improved significantly, from 2.4 percent of sales to about 1.9 percent.

Civil restitution: And there's an added plus, too. The program isn't costing The Broadway a dime because it's being funded entirely by civil restitution. According to Dan Gallegos, manager of the Restitution Department, the store is permitted by California law to bring a civil suit against a person who has been apprehended for shoplifting in one of their stores. They can demand from $50 to $500 from the perpetrator, and while they don't pursue every case—they shy away from children, senior citizens and indigents—Dan says they've never lost a judgment they did pursue.

The bottom line is The Broadway recovered more than $400,000 last year through civil restitution. This easily covers the cost of KSOS, with the balance going into a general fund.

All this bodes well for the future of KSOS, and the team is already working on upcoming programs. This fall they produced another "mystery item" pamphlet. They also formed a committee of loss prevention managers to give Rose feedback on what's working—what's being received well—and what's not.

They're also working on a new Team Shortage comic book, with an expanded cast of characters.

Says director Jim Lee: "The store managers believe in KSOS. The loss-prevention managers believe in it. It's been even more successful than we hoped it would be."

DRUG CHAINS

Of the 10 drug chains that responded to the Ounce of Prevention survey, eight had sales of $1 billion or more, one had sales in the $100 million to $399 million range, and one had sales of less than $100 million.

These retailers operated an average of 674 stores and together had 6,742.

Expenses and Capital Expenditures

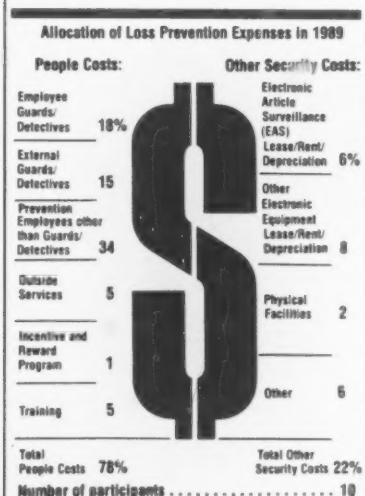
In 1989, drug chains incurred expenses of $57,513,000 for security and loss prevention. The average expenses per respondent was $5,751,000 or 0.22% of sales. In 1988, these retailers spent 0.19% of sales on loss prevention.

The drug chain with revenues under $100 million incurred expenses of $78,000, or 0.13% of sales. The company in the $100 million-$399 million range spent $400,000, or 0.33% of sales. And companies with revenues of $1 billion or more had expenses averaging $7,129,000, or 0.22% of sales.

Total capital expenditures in 1989 were $4,167,000, or $463,000 per respondent. EAS accounted for the lion's share of those expenditures at 57%. Alarm expenditures accounted for 18%, and other electrical equipment accounted for 15%.

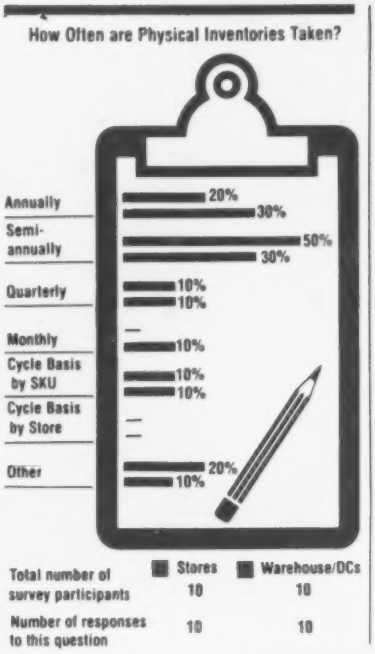
	All Drug Chains		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	10	10	1	1	1	1	—	—	8	8
Average Expenses as a Percent of Sales	0.22% (10)	0.19% (10)	0.13% (1)	0.10% (1)	0.33% (1)	0.25% (1)	— —	— —	0.22% (8)	0.19% (8)
Average Expenses (in $ thousands)	$5,751 (10)	$3,600 (10)	$78 (1)	$61 (1)	$400 (1)	$290 (1)	— —	— —	$7,129 (8)	$4,456 (8)
Total Expenses (in $ thousands)	$57,513 (10)	$36,000 (10)	$78 (1)	$61 (1)	$400 (1)	$290 (1)	— —	— —	$57,035 (8)	$35,649 (8)

( ) = Number of responses to this question.


Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/ Detectives 18%
External Guards/ Detectives 15
Prevention Employees other than Guards/ Detectives 34
Outside Services 5
Incentive and Reward Program 1
Training 5
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation 6%
Other Electronic Equipment Lease/Rent/ Depreciation 8
Physical Facilities 2
Other 6
Total People Costs 78%
Total Other Security Costs 22%
Number of participants 10
Number of responses to this question 10

People costs accounted for 78% of loss prevention expenses, with internal and external labor accounting for almost 70%. For the respondent with revenues below $100 million, people costs accounted for 99% of loss prevention expenses. For the company in the $100 million-$399 million range, people costs were 100%; and for companies with revenues over $1 billion, people costs accounted for 75% of loss prevention expenses.

DRUG CHAINS



Physical Inventory Approaches

Of the 10 drug chain respondents, five took store inventories twice a year and two took it annually. Three chains took their warehouse/DC's inventory twice a year and three took it annually.

At nine out of 10 drug chains, it took one day to complete a store's inventory. In the warehouse, five respondents took it in one day, one took it in two days, two took it in two and a half days and two took it in three days

Drug Chains by Retail Store Size in Square Feet	Number of Days							
	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	NA	—	—	NA	NA	NA	NA	—
2,500 to 7,499	NA	1	—	NA	NA	NA	NA	1
7,500 to 19,999	NA	4	1	NA	NA	NA	NA	5
20,000 to 49,999	NA	4	—	NA	NA	NA	NA	4
50,000 to 99,999	NA	—	—	NA	NA	NA	NA	—
100,000 or More	NA	—	—	NA	NA	NA	NA	—
All Drug Chains	NA	9	1	NA	NA	NA	NA	10
Under 75,000		1	NA	—	—	—	NA	1
75,000 to 150,000		1	NA	—	—	—	NA	1
151,000 to 350,000		2	NA	—	2	1	NA	5
Over 350,000		1	NA	1	—	1	NA	3
All Drug Chains		5	NA	1	2	2	NA	10

Total number of survey participants 10

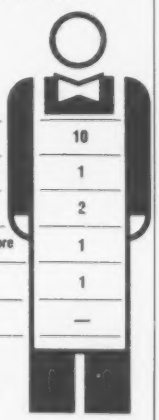
NA = not applicable.

DRUG CHAINS

Drug Chains by Retail Store Size in Square Feet	Average	Minimum	Maximum
Under 2,500	— —	— —	— —
2,500 to 7,499	10 (1)	10 (1)	10 (1)
7,500 to 19,999	14 (5)	8 (2)	25 (1)
20,000 to 49,999	33 (4)	5 (1)	65 (1)
50,000 to 99,999	— —	— —	— —
100,000 or More	— —	— —	— —
All Drug Chains	21 (10)	5 (1)	65 (1)
Under 75,000	15 (1)	15 (1)	15 (1)
75,000 to 150,000	20 (1)	20 (1)	20 (1)
151,000 to 350,000	39 (5)	19 (1)	80 (1)
Over 350,000	58 (3)	30 (1)	75 (1)
All Drug Chains	40 (10)	15 (1)	80 (1)

Total number of survey participants 10
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	10
Store Employees Within the Store	1
Employees Hired for Inventory Taking Purposes	2
Store Employees From Another Store	1
Other Employees	1
Other	—

Number of participants 10

Number of responses to this question 10

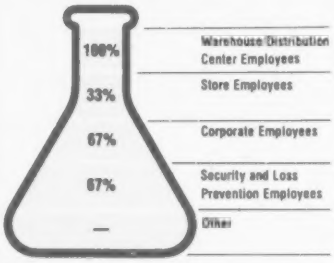
An average of 21 people per store were needed to perform physical inventory in 1989. Respondents with stores 20,000-49,999 feet used an average of 33 people. For stores 7,500-19,999 feet it took 14 people. For drug stores 2,500 feet to 7,499 feet, it took 10 people.

In the warehouse/DC, an average of 40 people were needed to perform inventory. For warehouses larger than 350,000 feet, it took 58 people. For warehouses 151,000 feet to 350,000 feet, it required 39 people. For 75,000-150,000-foot warehouses, it required 20 people. And for warehouses under 75,000 feet, it took an average of 15 people.

All 10 respondents hired an inventory-taking service to take inventory in their stores. Seven of the companies used Washington and six used RGIS. In the warehouse/DC, only three used RGIS, two used Washington, and three used "other."

DRUG CHAINS

On Which Employees is Drug Testing Performed?



Total number of survey participants 10
Number of responses to this question 3

When is Drug Testing Performed?

Pre-employment Screening	100%
Only When Suspicion Exists	67%
Periodic Testing	33%
Other	—

Total number of survey participants 10
Number of responses to this question 3

Why Doesn't Your Company Perform Drug Testing?

Management Philosophy	57%
We Use Pre-employment Honesty Testing	43%
Drugs are Not a Problem at Our Company	—
Tests are Not Cost Effective	14%
Current and/or Pending Legislation	29%
Other	14%

Total number of survey participants 10
Number of responses to this question 7

Drugs in the Workplace

Of the three drug chain respondents who tested their employees for drugs, all tested their warehouse/DC employees for drugs, two tested corporate and loss prevention employees, and one tested store employees.

All three respondents tested during preemployment screening, one tested periodically, and two tested only when suspicion existed.

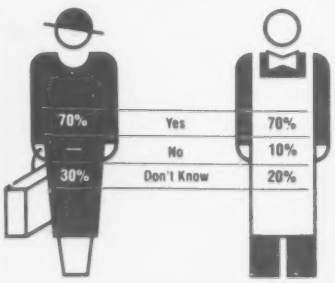
When asked why they don't test for drugs, 57% of respondents cited management philosophy, 43% said they used preemployment honesty testing, 29% cited current and/or pending legislation, and 14% said tests are not cost effective.

Seven out of our 10 drug chains felt the customers they apprehended last year had been using drugs. Three didn't know. Seven out of 10 also felt that drug use was evident among apprehended employees, while two didn't know.

How did they know? At 87% of the companies, the apprehended employees confessed. As for customers under the influence, 45% of the companies based their conclusion on behavior. Thirty-one percent said their apprehended customers confessed to drug use.

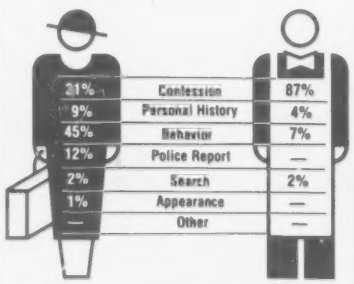
The police were involved in 71% of customer and 27% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



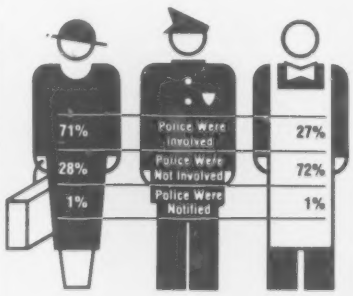
Customers		Employees
10	Total number of survey participants	10
10	Number of responses to this question	10

How Did You Know Thefts Were Drug Related?



Customers		Employees
10	Total number of survey participants	10
7	Number of responses to this question	7

Were Police Involved in Apprehensions?



Customers		Employees
10	Total number of survey participants	10
7	Number of responses to this question	7

DRUG CHAINS

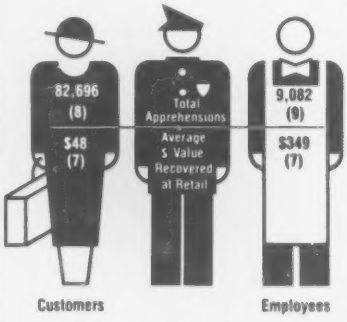
What Brand of EAS Equipment are Retailers Using?
(in $ millions)

Total number of survey participants 10
Number of responses to this question 8

EAS

Six of our drug chain respondents used Sensormatic EAS equipment, six used Checkpoint, one used Knogo and one responded "other."

Apprehensions and Dollars Recovered



Total number of survey participants 10
( ) = Number of responses to this question

Apprehensions

More than 91,000 people were apprehended by nine of the drug chains last year, and 82,696 were customers. In 1988, eight of the chains apprehended about 45,000 people and 39,294 were customers.

The value of the merchandise recovered from customer apprehensions last year was $2,466,000 or $48 per apprehension. The value of merchandise recovered from employee apprehensions was $3,061,000 or $349 per apprehension.

Seven of the drug chains sought civil restitution from apprehended customers and employees in 1989. More than 20,000 cases were attempted and more than 12,000 were settled. The amount recovered from these actions was $1,714,000, an average of $245,000 per company.

GENERAL MERCHANDISE/MASS MERCHANTS

Of the 27 mass merchants that responded to the survey, 10 had sales in 1989 of $1 billion or more, four had sales in the $400 million-$999 million range, eight had sales of $100 million-$399 million, and five had sales of less than $100 million.

These merchants operated an average of 411 stores; together they operated 11,087.

Expenses and Capital Expenditures

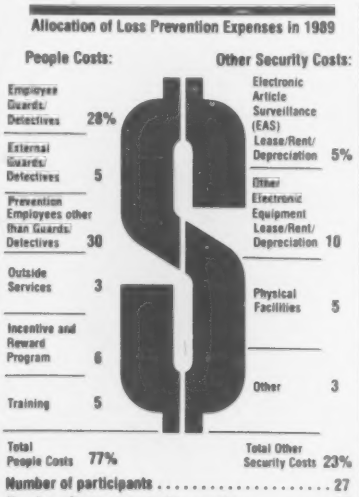
Mass merchants spent $116,475,000 on loss prevention in 1989, an average of $5,064,000 per respondent. As a percentage of sales, they spent 0.33%. On a same-respondent basis, expenses increased from 0.31% in 1988 to 0.32% in 1989.

Mass merchants with sales of $1 billion or more averaged $11,795,000, or 0.35% of sales. Companies in the $400-$999 million range averaged $1,114,000, or 0.13% of sales. Merchants in the $100 million-$399 million range averaged $1,113,000, or 0.48% of sales. Companies under $100 million averaged $61,000, or 0.20% of sales.

Total capital expenditure last year was $18,103,000 or $696,000 per merchant. EAS accounted for 42% of those expenditures, down from 48% in 1988. Alarms accounted for 24% and other electronic equipment accounted for 34%.

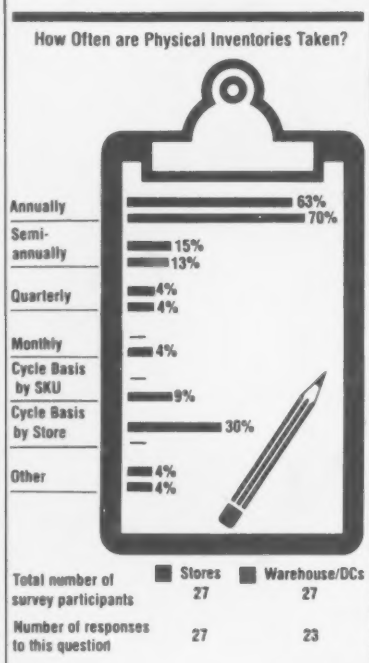
	All General Merchandise/ Mass Merchants		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	27	27	5	5	8	8	4	4	10	10
Average Expenses as a Percent of Sales	0.33% (24)	0.31% (23)	0.20% (5)	0.15% (5)	0.48% (7)	0.49% (6)	0.13% (3)	0.12% (3)	0.35% (9)	0.33% (9)
Average Expenses (in $ thousands)	$5,064 (23)	$4,373 (23)	$61 (5)	$49 (5)	$1,113 (6)	$1,119 (6)	$1,114 (3)	$989 (3)	$11,795 (9)	$10,072 (9)
Total Expenses (in $ thousands)	$116,475 (23)	$100,568 (23)	$304 (5)	$243 (5)	$6,676 (6)	$6,715 (6)	$3,343 (3)	$2,966 (3)	$106,152 (9)	$90,644 (9)

( ) = Number of responses to this question.


Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/ Detectives 28%
External Guards/ Detectives 5
Prevention Employees other than Guards/ Detectives 30
Outside Services 3
Incentive and Reward Program 6
Training 5
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation 5%
Other Electronic Equipment Lease/Rent/ Depreciation 10
Physical Facilities 5
Other 3
Total People Costs 77%
Total Other Security Costs 23%
Number of participants 27
Number of responses to this question 25

People costs accounted for 77% of those expenses, with more than 60% allocated for internal and external labor. For respondents with revenues below $100 million, people costs accounted for 66% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 87%; for companies in the $400 million-$999 million range, their costs were 73%; and for companies with revenues over $1 billion, people costs accounted for 75% of loss prevention expenses.

GENERAL MERCHANDISE/MASS MERCHANTS



Physical Inventory Approaches

Sixty-three percent of respondents took store inventory annually, 30% used a cycle basis by store, and 15% took inventory twice a year. Seventy percent took inventory annually in the warehouse/DC, 13% took it twice a year, and 9% took it on a cycle basis by SKU.

At 15 of the companies, it took one day to complete the store physical. At six, it took two days. And at two, it took one-and-a-half days. At five of the retailers, the warehouse/DCs physical was completed in one day. At four, it took one-and-a-half days. Another four took two days per facility, and three took three days.

General Merchandise/Mass Merchants by Retail Store Size in Square Feet	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	—	—	—	—	—	—	—	—
2,500 to 7,499	—	1	—	1	—	—	—	2
7,500 to 19,999	—	5	—	1	—	—	—	6
20,000 to 49,999	—	3	2	1	—	1	—	7
50,000 to 99,999	—	6	—	2	—	—	1	9
100,000 or More	—	—	—	1	—	—	—	1
All General Merchandise/Mass Merchants	—	15	2	6	—	1	1	25
Under 75,000	NA	2	1	—	—	—	—	3
75,000 to 150,000	NA	—	1	—	—	1	—	2
151,000 to 350,000	NA	2	1	2	—	—	—	5
Over 350,000	NA	1	1	2	1	2	1	8
All General Merchandise/Mass Merchants	NA	5	4	4	1	3	1	18

Total number of survey participants 27

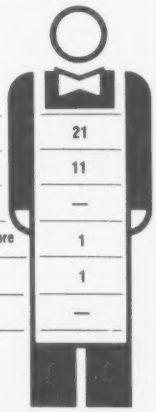
NA = not applicable.

GENERAL MERCHANDISE/MASS MERCHANTS

General Merchandise/Mass Merchants by Retail Store Size in Square Feet	Average	Minimum	Maximum
Under 2,500	—	—	—
	—	—	—
2,500 to 7,499	8	4	12
	(2)	(1)	(1)
7,500 to 19,999	13	9	20
	(5)	(1)	(1)
20,000 to 49,999	39	12	120
	(7)	(1)	(1)
50,000 to 99,999	68	35	160
	(9)	(1)	(1)
100,000 or More	85	85	85
	(1)	(1)	(1)
All General Merchandise/Mass Merchants	44	4	160
	(24)	(1)	(1)
Square Feet			
Under 75,000	16	9	30
	(3)	(1)	(1)
75,000 to 150,000	50	40	60
	(2)	(1)	(1)
151,000 to 350,000	56	25	110
	(5)	(1)	(1)
Over 350,000	83	10	175
	(8)	(1)	(1)
All General Merchandise/Mass Merchants	61	9	175
	(18)	(1)	(1)

Total number of survey participants 27
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	21
Store Employees Within the Store	11
Employees Hired for Inventory Taking Purposes	—
Store Employees From Another Store	1
Other Employees	1
Other	—

Number of participants 27

Number of responses to this question 27

An average of 44 people were needed to take a store's inventory last year. For stores over 100,000 feet, 85 people were used. For stores 50,000-99,999 feet, it took 68 people. For stores 20,000 feet-49,999 feet, 39 people were required. For stores 7,500-19,999 feet, 13 people were used. And for stores 2,500-7,499 feet, eight people were required.

At the warehouse/DC, an average of 61 people were needed to take inventory. For warehouses larger than 350,000 feet, 83 people were required. For warehouses 151,000-350,000 feet, 56 people were needed. For warehouses 75,000-150,000 feet, 50 people were used. For warehouses under 75,000 feet, an average of 16 people were needed.

Seventy-eight percent hired an inventory-taking service for their store's inventory, and 41% used store employees. Of the mass merchants that used an outside inventory-taking service for store inventories, 90% used RGIS, 55% used Washington, one company used Capital and three said they used other services. Only two merchants used RGIS for the warehouse/DC and one used Washington. Two used other services.

GENERAL MERCHANDISE/MASS MERCHANTS

	All General Merchandise/ Mass Merchants	Participants by 1989 Sales Volume in $Millions			
		Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	27	5	8	4	10
Number of Responses to this Question	22	3	7	3	9
Under $50,000	2	2	—	—	—
$50,000 to $199,999	4	1	3	—	—
$200,000 to $999,999	7	—	4	2	1
$1,000,000 or more	9	—	—	1	8
Average Cost of Physical Inventory Taking (in $ thousands)	$2,362	$48	$307	$800	$5,253

The total cost of taking inventory was $51,969,000, or $2,362,000 per retailer. For merchants with revenues of $1 billion or more, it cost an average of $5,253,000. For companies with revenues of $400 million to $999 million, the average was $800,000. For companies with revenues of $100 million to $399 million, the average was $307,000. And for companies with revenues under $100 million, the average cost was $48,000.

The high-shrink department was fashion accessories and costume jewelry, at 11.22% of sales. The low-shrink department was men's apparel, at 1.69% of sales.

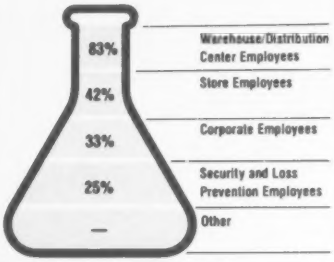
What is the Highest Shrinkage Department?

	Ladie's Apparel	Men's Apparel	Juniors	Health and Beauty Aids	Fine Jewelry	Shoes	Fashion Accessories and Costume Jewelry	Toys, Hobbies and Games	Records, Cassettes, CDs and Videotapes	Radios, Televisions and Stereos	Sporting Goods
Shrinkage Percentage	2.72%	1.69%	2.34%	2.88%	7.09%	2.27%	11.22%	1.99%	3.83%	3.56%	3.69%
Number of respondents	16	16	13	16	11	14	14	16	16	15	15

Total number of survey participants 27

GENERAL MERCHANDISE/MASS MERCHANTS

On Which Employees is Drug Testing Performed?



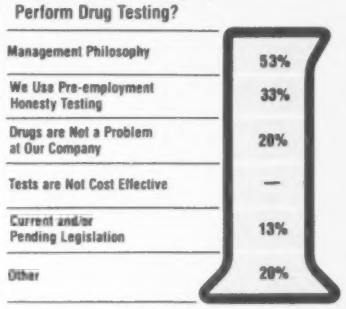
Total number of survey participants 27
Number of responses to this question 12

When is Drug Testing Performed?

Pre-employment Screening	100%
Only When Suspicion Exists	33%
Periodic Testing	8%
Other	17%

Total number of survey participants 27
Number of responses to this question 12

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants 27
Number of responses to this question 15

Drugs in the Workplace

Twelve mass merchants indicated they performed drug testing this year. Warehouse/DC employees were tested at 83%, store employees were tested at 42%, corporate employees were tested at 33%, and loss prevention employees were tested at 25%.

All tested for drugs during preemployment screening. Four tested only when suspicion existed, and one tested periodically.

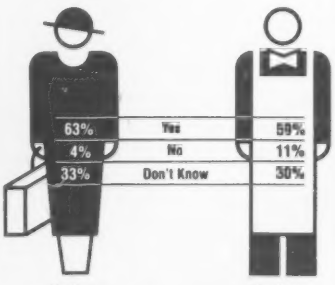
When asked why they didn't test for drugs, 53% cited management philosophy, 33% said they use preemployment honesty testing, 20% said drugs were not a problem at their company, and 13% cited current and/or pending legislation.

Sixty-three percent of the mass merchants said there was evidence that apprehended customers had been using drugs, and 59% said the same about apprehended employees. Thirty-three percent didn't know about the customers, and 30% didn't know if their employee thefts had been drug related.

How did they know? At 59% employees confessed; at 19%, their behavior gave them away; and at 10% their appearance provided the evidence. As for customers, 30% of respondents went by behavior, 29% elicited confessions, 19% got a police report, and 11% cited appearance.

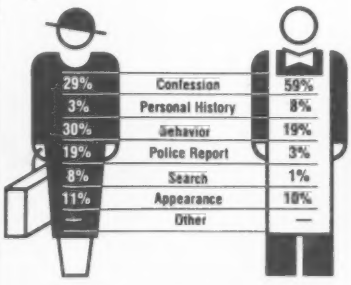
The police were involved in 71% of customer and 53% of employee apprehensions. They were notified in 13% of customer and 8% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



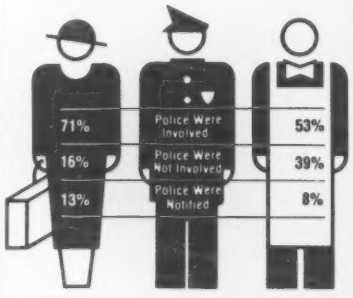
Customers	Total number of survey participants	Employees
27		27
27	Number of responses to this question	27

How Did You Know Thefts Were Drug Related?



Customers	Total number of survey participants	Employees
27		27
15	Number of responses to this question	15

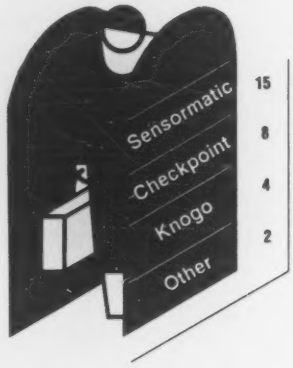
Were Police Involved in Apprehensions?



Customers	Total number of survey participants	Employees
27		27
13	Number of responses to this question	14

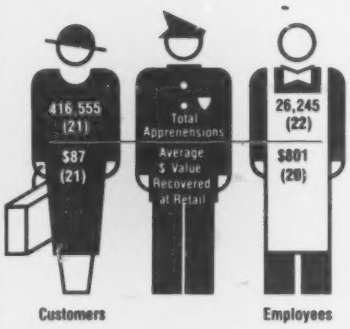
GENERAL MERCHANDISE/MASS MERCHANTS

What Brand of EAS Equipment are Retailers Using?
(in $ millions)



Total number of survey participants 27
Number of responses to this question 17

Apprehensions and Dollars Recovered



Total number of survey participants 27
( ) = Number of responses to this question

EAS

Eighty-eight percent of the respondents used Sensormatic EAS equipment, 47% used Checkpoint, and 24% used Knogo.

Apprehensions

Last year, the mass merchants recovered $22,606,000 in merchandise from customer apprehensions—an average of $87 per apprehension. They recovered $14,975,000 from employee apprehensions, or $801 per apprehension.

Seventy-eight percent of mass merchants sought civil restitution from apprehended customers and employees last year. More than 32,000 cases were attempted and 3,000 cases were settled, for an average recovery of $247,000 per merchant.

SPECIALTY: APPAREL

Of the 21 specialty apparel retailers that responded to this year's survey, two had sales in 1989 of $1 billion or more, three had sales in the $400 million-$999 million range, five had sales in the $100 million-$399 million range, and 11 had sales of less than $100 million.

These retailers had an average of 383 stores and together operated 8,049.

Expenses and Capital Expenditures

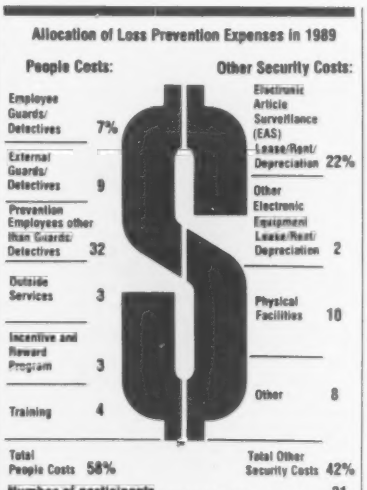
The apparel specialty stores spent $31,039,000 on loss prevention in 1989, for an average of $1,478,000 per merchant. As a percentage of sales these retailers spent 0.39%, the second highest percentage in our survey. This percentage was unchanged from 1988.

Specialty apparel stores with revenues of $1 billion had expenses averaging $8,863,000, or 0.58% of sales. Companies in the $400-$999 million range averaged $2,347,000, or 0.34% of sales. Stores in the $100-$399 million range averaged $951,000, or 0.29% of sales. And companies under $100 million averaged $138,000, or 0.41% of sales.

Total capital expenditure was $5,621,000 or $312,000 per respondent—up from $258,000 in 1988. EAS accounted for a survey-high 76% of security expenditures; alarms accounted for 14% and other electrical equipment accounted for 8%.

	All Specialty Apparel		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	21	21	11	11	5	5	3	3	2	2
Average Expenses as a Percent of Sales	0.39% (21)	0.39% (19)	0.41% (11)	0.40% (9)	0.29% (5)	0.32% (5)	0.34% (3)	0.34% (3)	0.58% (2)	0.61% (2)
Average Expenses (in $ thousands)	$1,478 (21)	$1,504 (19)	$138 (11)	$122 (9)	$951 (5)	$834 (5)	$2,347 (3)	$2,099 (3)	$8,863 (2)	$8,501 (2)
Total Expenses (in $ thousands)	$31,039 (21)	$28,567 (19)	$1,516 (11)	$1,099 (9)	$4,755 (5)	$4,171 (5)	$7,042 (3)	$6,296 (3)	$17,726 (2)	$17,001 (2)

( ) = Number of responses to this question.

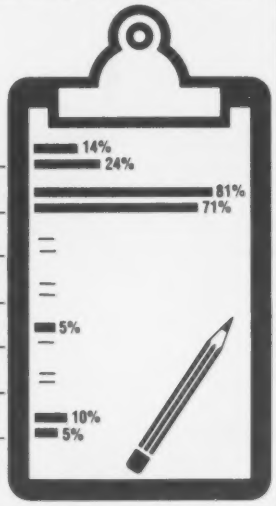

Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/ Detectives 7%
External Guards/ Detectives 9
Prevention Employees other than Guards/ Detectives 32
Outside Services 3
Incentive and Reward Program 3
Training 4
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation 22%
Other Electronic Equipment Lease/Rent/ Depreciation 2
Physical Facilities 10
Other 8
Total People Costs 58%
Total Other Security Costs 42%
Number of participants 21
Number of responses to this question 20

While people costs accounted for the lion's share of expenses, its total of 58% was lower than any other class of trade. About 50% were allocated to internal and external guards, detectives and outside services.

For respondents with revenues below $100 million, people costs accounted for 50% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 64%; for companies in the $400 million-$999 million range, their costs were 62%; and for companies with revenues over $1 billion, people costs accounted for 89% of loss prevention expenses.

SPECIALTY: APPAREL

How Often are Physical Inventories Taken?



	Stores	Warehouse/DCs
Total number of survey participants	21	21
Number of responses to this question	21	21

Physical Inventory Approaches

Eighty-one percent took their store's inventory twice a year; 14% took it annually. Seventy-one percent took their warehouse/DC inventory twice a year; 24% took it annually.

Seventeen out of 18 respondents completed store inventory in one day or less. In the warehouse, 10 of 18 respondents took inventory in one day, two took it in one-and-a-half days, and five took it in two days. Three of these five respondents had facilities larger than 350,000 feet.

Specialty Apparel by Retail Store Size in Square Feet	Number of Days							
	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	—	3	—	—	—	—	—	3
2,500 to 7,499	1	7	1	—	—	—	—	9
7,500 to 19,999	2	1	—	—	—	—	—	3
20,000 to 49,999	—	2	—	—	—	—	—	2
50,000 to 99,999	—	1	—	—	—	—	—	1
100,000 or More	—	—	—	—	—	—	—	—
All Specialty Apparel	3	14	1	—	—	—	—	18
Under 75,000	NA	7	1	—	—	—	—	8
75,000 to 150,000	NA	2	—	1	—	—	1	4
151,000 to 350,000	NA	1	1	1	—	—	—	3
Over 350,000	NA	—	—	3	—	—	—	3
All Specialty Apparel	NA	10	2	5	—	—	1	18

Total number of survey participants 21

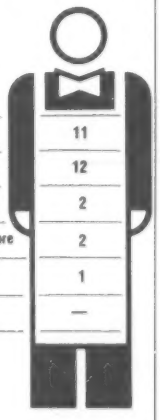
NA = not applicable.

SPECIALTY: APPAREL

Specialty Apparel by Retail Store Size In Square Feet	Average	Minimum	Maximum
Under 2,500	7 (3)	5 (1)	9 (1)
2,500 to 7,499	12 (9)	7 (2)	20 (1)
7,500 to 19,999	13 (3)	11 (2)	18 (1)
20,000 to 49,999	43 (2)	40 (1)	45 (1)
50,000 to 99,999	150 (1)	150 (1)	150 (1)
100,000 or More	— —	— —	— —
All Specialty Apparel	22 (18)	5 (1)	150 (1)
Warehouse/DC Size In Square Feet			
Under 75,000	18 (8)	10 (2)	40 (1)
75,000 to 150,000	37 (4)	4 (1)	75 (1)
151,000 to 350,000	75 (3)	50 (1)	100 (1)
Over 350,000	140 (3)	20 (1)	300 (1)
All Specialty Apparel	52 (18)	4 (1)	300 (1)

Total number of survey participants 21
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	11
Store Employees Within the Store	12
Employees Hired for Inventory Taking Purposes	2
Store Employees From Another Store	2
Other Employees	1
Other	—

Number of participants 21

Number of responses to this question 21

An average of 22 people per store were needed to take physical inventory. For stores 50,000-99,999 feet, an average of 150 people were required to perform the inventory. For stores 20,000-49,999 feet, it took an average of 43 people.

For stores 7,500-19,999 feet, it took 13 people. For stores 2,500-7,499 feet it required 12 people. And for stores under 2,500 feet, it took an average of seven people.

In the warehouse/DC, an average of 52 people were needed to take inventory. For facilities larger than 350,000 feet, it required an average of 140 people. For warehouses 151,000-350,000 feet, it took 75 people. For facilities 75,000-150,000 feet, it took 37 people. And for warehouses under 75,000 feet, it required an average of 18 people to perform the inventory.

At 57% of the companies, inventory was taken by store employees within the store. Fifty-two percent used an inventory-taking service.

Of the apparel retailers who used an inventory-taking service for store physicals, 10 used RGIS and two used Washington. Only six used RGIS in the warehouse/DC, and one used Washington.

SPECIALTY: APPAREL

	All Specialty Apparel	Participants by 1989 Sales Volume in $Millions			
		Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	21	11	5	3	2
Number of Responses to this Question	16	9	3	3	1
Under $50,000	4	4	—	—	—
$50,000 to $199,999	6	5	—	1	—
$200,000 to $999,999	6	—	3	2	1
$1,000,000 or more	—	—	—	—	—
Average Cost of Physical Inventory Taking (in $ thousands)	$206	$62	$342	$322	$750

The cost of taking inventory averaged $206,000. For the respondent with revenues over $1 billion, the cost was $750,000. For companies with revenues of $400 million to $999 million, the average was $322,000. For companies with revenues of $100 million to $399 million, the average was $342,000. And for companies with revenues under $100 million, the average cost was $62,000.

The high-shrink [illegible]ment was fashion accesso[illegible] costume jewelry, at [illegible] of sales. The low-shrink department was health and beauty aids, at 1% of sales.

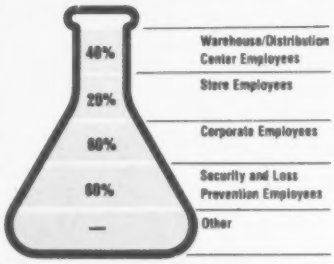
What is the Highest Shrinkage Department?

	Ladie's Apparel	Men's Apparel	Juniors	Health and Beauty Aids	Fine Jewelry	Shoes	Fashion Accessories and Costume Jewelry	Toys, Hobbies and Games	Records, Cassettes, CDs and Videotapes	Radios, Televisions and Stereos	Sporting Goods
Shrinkage Percentage	1.43%	1.18%	1.84%	1.00%	1.84%	1.17%	4.32%	4.00%	—	—	4.00%
Number of respondents	9	8	3	1	2	3	4	1	—	—	1

Total number of survey participants 21

SPECIALTY: APPAREL

On Which Employees is Drug Testing Performed?



Total number of survey participants 21
Number of responses to this question 5

When is Drug Testing Performed?

Pre-employment Screening	100%
Only When Suspicion Exists	20%
Periodic Testing	—
Other	—

Total number of survey participants 21
Number of responses to this question 5

Why Doesn't Your Company Perform Drug Testing?

Management Philosophy	50%
We Use Pre-employment Honesty Testing	19%
Drugs are Not a Problem at Our Company	25%
Tests are Not Cost Effective	19%
Current and/or Pending Legislation	25%
Other	13%

Total number of survey participants 21
Number of responses to this question 16

Drugs in the Workplace

Of the five specialty apparel stores who said they performed drug testing, 60% tested their corporate and loss prevention employees, 40% tested their warehouse/DC employees, and 20% tested their store employees.

All five of the respondents said they tested during preemployment screening, and 20% said they tested only when suspicion exists.

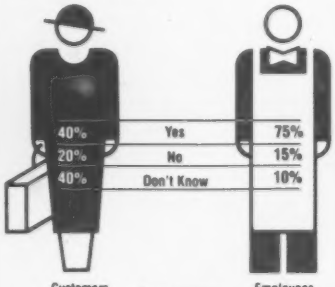
When asked why they didn't conduct drug tests, 50% cited management philosophy, 25% said drugs were not a problem at their company, and 25% identified current and/or pending legislation.

Forty percent said there was evidence that customers caught shoplifting had been using drugs. Twenty percent said there was no evidence and 40% didn't know. In the case of employee theft, 75% said there was evidence of drug use, 15% said there was no evidence, and 10% said they didn't know.

At 52%, the companies knew about their employees' drug use because the employees confessed. Fourteen percent cited the personal history of the employee, 12% cited behavior, 8% went by a police report, and 6% cited appearance. As for customers, 39% of respondents went by confessions, 22% indicated behavior, 21% used a police report, and 14% cited appearance.

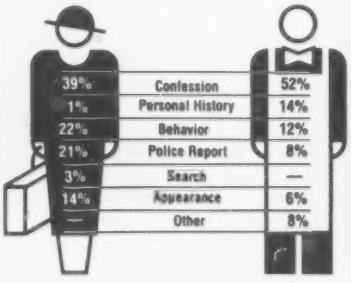
The police were involved in 32% of customer and 56% of employee apprehensions. They were notified in 19% of customer and 9% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



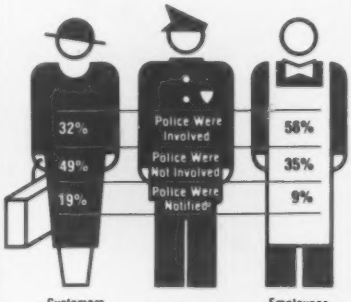
Customers		Employees
21	Total number of survey participants	21
20	Number of responses to this question	20

How Did You Know Thefts Were Drug Related?



Customers		Employees
21	Total number of survey participants	21
8	Number of responses to this question	15

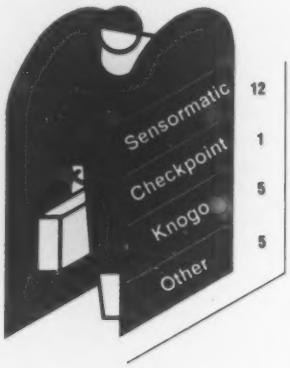
Were Police Involved in Apprehensions?



Customers		Employees
21	Total number of survey participants	21
7	Number of responses to this question	16

SPECIALTY: APPAREL

What Brand of EAS Equipment are Retailers Using?
(in $ millions)

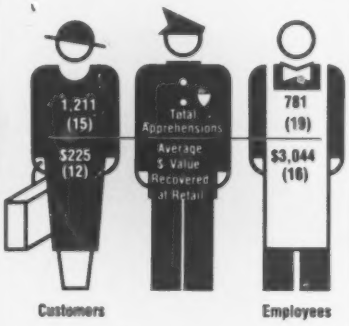


Total number of survey participants 21
Number of responses to this question 14

EAS

Eighty-six percent of respondents used Sensormatic EAS equipment, 36% used Knogo, 36% used "other," and 7% used Checkpoint.

Apprehensions and Dollars Recovered



Total number of survey participants 21
( ) = Number of responses to this question

Apprehensions

In 1989, the respondents recovered $783,000 in merchandise from apprehended customers, or $225 per apprehension. The value of merchandise recovered from apprehended employees was $631,000, or $3044 per apprehension.

Thirty-eight percent of softline companies sought civil restitution from apprehended people in 1989. Just 77 cases were attempted and 34 settled, and an average of only $18,000 per company was recovered.

CASE STUDY: SAKS FIFTH AVENUE

Saks Sees Results with Deterrence Program

Saks Fifth Avenue: A fashion specialty store
Number of stores: 48
Region: nationwide
Annual revenue: $1.3 billion

"In loss prevention, you are always dealing with human nature," says Armand Rumayor, Security and Loss Prevention VP for Saks Fifth Avenue. "The more you understand that and capitalize on it, the more successful you will be."

He ought to know. A loss-prevention professional since 1967, Rumayor has been running the Saks program since 1983. And he knows what works—and what doesn't.

One approach that does not work is trying to apprehend every shoplifter that comes through the doors. "They're like barbarians," says Rumayor. "They seem to come from everywhere, and in great numbers." For this reason, Saks has for six or seven years put its effort into deterrence.

Deterrence at Saks begins with employee awareness. And awareness, says Rumayor, begins with human nature—that is, it plays off people's sentiments and tendencies.

For example, most people respond to awareness programs that are continuous rather than intermittent, says Rumayor. So the company works hard to sustain a program and maintain momentum. "Just as you can't let down in generating sales, you can't let down in an awareness program," he says.

One successful, ongoing program is Saks' poster contest. A few years ago, Rumayor solicited loss-prevention artwork from Saks employees and the response was tremendous. While the company has to pay for printing, the poster program has been a low-cost way to heighten awareness. And because there have been so many good submissions, Rumayor will be able to print and display new ones two or three times a year for several years to come.

The company is also using videotapes. "You are always vying for the time and attention of sales associates," says Rumayor. "So we produce videotapes dealing with issues like shoplifting and internal dishonesty and screen them for associates, on the sales floor, 10 to 15 minutes before the store opens." The tapes, which are no longer than about five minutes, "keep the associates' attention and get them back on the selling floor quickly," he says. "Very effective."

Gimmicks, gimmicks and more gimmicks: "Gimmicks," as Rumayor says, are essential. One of his favorites is the helium balloon reminder.

At closing time, associates and managers are required to go through a number of security procedures—doors must be locked, registers closed out, etc. Many stores have a security person go through the store after closing to see that these procedures have been carried out properly. If they haven't, the security person will leave a helium balloon for the person responsible. Of course, the balloon will have a logo on it. "You must have logos in loss prevention!" says Rumayor.

Rumayor is also fond of loss-prevention "festivities." Periodically, sales associates will be surprised when they walk into their store in the morning and find it decorated with streamers and signs celebrating "Loss Prevention Day." Often, the staff will be treated to a pizza lunch. And, of course, a loss-prevention logo will be stamped on the pizza itself.

"Merchants are always doing things like this to promote business," says Rumayor. "Loss-prevention professionals have to do the same thing."

Incentives: Also important, says Rumayor, are incentives—both cash and non-cash. At Saks, if an associate provides information that prevents a shoplifter from, say, perpetrating a credit card fraud, the store will give that person $25-$500 plus an award certificate. And the award will be made publicly.

But sometimes, Rumayor finds other ways to reward associates. If a team in a store does a particularly good job, he might take a photo of them, put it on a poster, and display the poster in the store.

Invariably, says Rumayor, when he visits a store and goes into the stock area, he'll see old posters and award certificates on the walls. "The employees put them there," he says. "They respond well to this kind of recognition."

Also critical to any loss-prevention program is customer service, says Rumayor. "Good customer service doesn't just make customers happy," he says. "It deters shoplifters. So we preach customer service in loss-prevention training."

Technology: Technology is also an effective deterrent, says Rumayor—especially closed-circuit TV and EAS. Some Saks stores use as many as 20 CCTV cameras; they are both overt and covert, with the overt ones having a deterrence value. At employee entrances, there are often five or six TV monitors visible.

CCTV is efficient, too, because one detective can watch all 20 monitors, and because minimal time is needed for installation. This is helpful, says Rumayor,

CASE STUDY: SAKS FIFTH AVENUE

because Saks believes cameras should be moved frequently.

EAS works: EAS is essential for a large retailer, says Rumayor. "Maybe a specialty retailer can do without it," he says. "But once you're up to 100,000 feet, you don't have enough security people, nor can you have enough sales associates.

"EAS works," he continues. "But like all technologies, you have to manage it. You have to make sure everything is tagged."

But what if someone defeats a tag? "If you find the tag, you can use it to your advantage," he says. "First, it tells you definitively that you've had a theft, and that can be difficult to determine otherwise. Second, if you know where a theft has occurred, you know where to put a camera."

Rumayor is excited by Sensormatic's Smart Tag. An alarm is contained in this tag, so if someone leaves a store with it, it will continue to sound. And if someone tries to defeat the tag, the alarm goes off.

Employee theft: While employee theft is nothing new, Rumayor says employee manipulation of the sales system is becoming increasingly sophisticated, so that now, employees are finding ways to steal money, not just merchandise. Fortunately, he has a new technology to combat it.

A software system created by Eastbourne Consulting, the program monitors the POS system for extraordinary activity in returns and other transactions, telling you, for example, that last week on one credit card, there were five returns. It can then tell you when these returns occurred and at what time of day. And ultimately, you can find out whose card it is. Recently, Rumayor used this system to discover that one of Saks' employees was ringing up returns against his own credit card.

The bottom line: The result of Saks' "deterrence program" has been a significant reduction in shrinkage. Five years ago, shrink was about 2.8% of sales. Now, says Rumayor, it's 2.0%.

The company aims for 2.0%, though Rumayor says it can be—and has been—as low as 1.8%. The problem is money.

"You can spend more money and drive the result lower, but there's a tradeoff," he says. At some point you come close to spending as much as you save.

The future: In the future, Rumayor plans to stay with what's working. "I think there's more payback on deterrence," he says. "I'd rather have a shoplifter say, 'I don't want to go to Saks—too difficult.'"

The company will also continue pre-employment screening. This testing procedure has served to weed out potential problem employees, and has done so very effectively. Rumayor says that through this test, one out of five people reveal that they have stolen in the past, or that they will probably be unproductive.

Rumayor is concerned, however, that the future of this psychological test may be in jeopardy. "It's another privacy issue," he says. Eventually, it may be considered a personal intrusion, just as the polygraph test was.

"There's nothing easy about loss prevention," says Rumayor. "And it doesn't look like it's going to get any easier either."

SPECIALTY: HARDLINES

Thirty-seven specialty hardliners responded to this year's survey, more than any other segment. Of this group, five had sales of $1 billion or more, three had sales in the $400 million-$999 million range, 10 had sales in the $100 million-$399 million range, and 19 had sales of less than $100 million.

These retailers operated an average of 123 stores. Together, they operated 4,568.

Expenses and Capital Expenditures

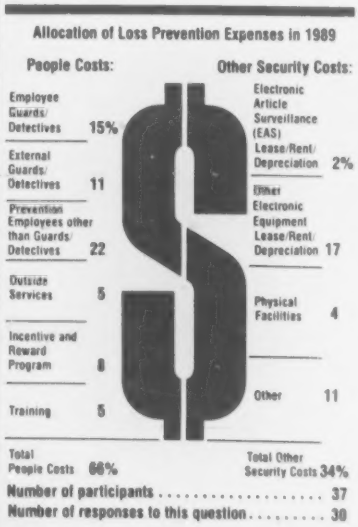
Hardline specialty stores spent $11,319,000 on loss prevention in 1989. The average was $343,000 per respondent, or 0.17% of sales. On a same-respondent basis, expenses increased from 0.16% in 1988 to 0.18% in 1989.

Hardliners with revenues of $1 billion had expenses averaging $955,000, or 0.07% of sales. Companies in the $400-$999 million range averaged $575,000, or 0.06% percent of sales. Companies in the $100-$399 million range averaged $287,000, or 0.12% of sales. Hardliners with revenues under $100 million averaged $140,000, or 0.26% of sales.

Capital expenditures in 1989 were $2,114,000 or $73,000 per respondent. Alarms accounted for an extraordinary 63% of those expenditures, while EAS accounted for just 12%—a figure that was down from 16% in 1988. Other electrical equipment accounted for 25%.

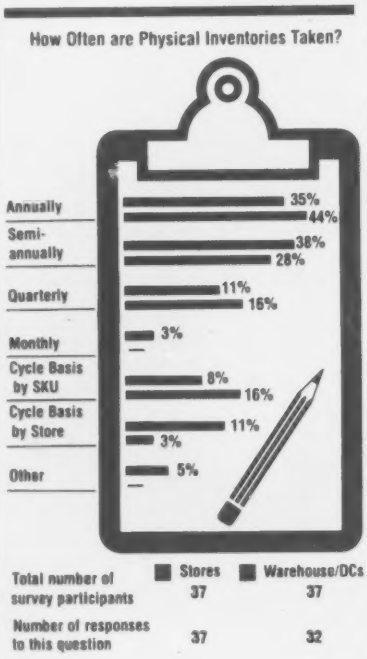
	All Specialty Hardlines		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	37	37	19	19	10	10	3	3	5	5
Average Expenses as a Percent of Sales	0.17% (32)	0.16% (30)	0.26% (15)	0.22% (15)	0.12% (9)	0.11% (7)	0.06% (3)	0.06% (3)	0.07% (5)	0.07% (5)
Average Expenses (in $ thousands)	$343 (33)	$327 (29)	$140 (16)	$117 (15)	$287 (9)	$205 (7)	$575 (3)	$867 (2)	$955 (5)	$909 (5)
Total Expenses (in $ thousands)	$11,319 (33)	$9,471 (29)	$2,236 (16)	$1,756 (15)	$2,582 (9)	$1,436 (7)	$1,724 (3)	$1,733 (2)	$4,777 (5)	$4,546 (5)

( ) = Number of responses to this question.


Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/ Detectives 15%
External Guards/ Detectives 11
Prevention Employees other than Guards/ Detectives 22
Outside Services 5
Incentive and Reward Program 8
Training 5
Total People Costs 66%
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation 2%
Other Electronic Equipment Lease/Rent/ Depreciation 17
Physical Facilities 4
Other 11
Total Other Security Costs 34%
Number of participants 37
Number of responses to this question 30

People costs accounted for 66% of total expenses, with internal and external guards/detectives, other loss prevention employees and outside services accounting for about 53%. For respondents with revenues below $100 million, people costs accounted for 59% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 72%; for companies in the $400 million-$999 million range, their costs were 66%; and for companies with revenues over $1 billion, people costs accounted for 76% of loss prevention expenses.

SPECIALTY: HARDLINES



Physical Inventory Approaches

Thirty-eight percent of respondents took store physical inventories twice a year, 35% took it annually, and 11% took it on a cycle basis by store or quarterly. Forty-four percent took their warehouse/DC inventory annually, 28% took it twice a year, and 16% took it on a cycle basis by sku or quarterly.

Twenty-three of 34 respondents took store physical inventory in one day or less. Four did it in one-and-a-half days, four did it in two days, one did it in two-and-a-half days, and two did it in three days.

In the warehouse/DC, 12 of 27 respondents took inventory in one day, and two had facilities over 350,000 feet. Nine took it in two days, and three took it in three days.

Specialty Hardlines by Retail Store Size in Square Feet	Number of Days							
	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	—	3	—	—	—	—	—	3
2,500 to 7,499	1	5	2	—	—	—	—	8
7,500 to 19,999	—	5	2	3	—	—	—	10
20,000 to 49,999	—	4	—	1	—	2	—	7
50,000 to 99,999	—	5	—	—	1	—	—	6
100,000 or More	—	—	—	—	—	—	—	—
All Specialty Hardlines	1	22	4	4	1	2	—	34
Under 75,000	NA	5	1	1	—	—	—	7
75,000 to 150,000	NA	2	—	6	1	—	—	9
151,000 to 350,000	NA	3	—	1	1	2	—	7
Over 350,000	NA	2	—	1	—	1	—	4
All Specialty Hardlines	NA	12	1	9	2	3	—	27

Total number of survey participants 37

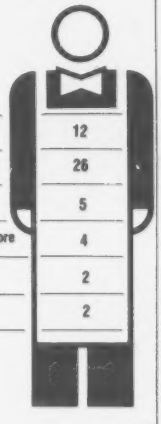
NA = not applicable.

SPECIALTY: HARDLINES

Specialty Hardlines by Retail Store Size In Square Feet	Average	Minimum	Maximum
Under 2,500	3 (3)	1 (1)	6 (1)
2,500 to 7,499	7 (8)	2 (1)	15 (1)
7,500 to 19,999	16 (10)	3 (1)	40 (1)
20,000 to 49,999	35 (7)	10 (1)	102 (1)
50,000 to 99,999	34 (6)	2 (1)	100 (1)
100,000 or More	— —	— —	— —
All Specialty Hardlines	20 (34)	1 (1)	102 (1)
Warehouse/DC			
Under 75,000	12 (7)	4 (1)	25 (1)
75,000 to 150,000	21 (9)	3 (1)	50 (1)
151,000 to 350,000	49 (7)	10 (1)	102 (1)
Over 350,000	64 (4)	25 (1)	120 (1)
All Specialty Hardlines	32 (27)	3 (1)	120 (1)

Total number of survey participants 37
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	12
Store Employees Within the Store	26
Employees Hired for Inventory Taking Purposes	5
Store Employees From Another Store	4
Other Employees	2
Other	2
Number of participants	37
Number of responses to this question	37

An average of 20 people per store were needed to take inventory. Respondents with stores averaging 50,000-99,999 feet required 34 people to perform an inventory. For stores 20,000-49,999 feet it took 35 people. For stores 7,500-19,999 feet, it required 16 people. For stores 2,500-7,499 feet, it took an average of seven people. And for stores under 2,500 feet, it required an average of three people.

In the warehouse/DC, an average of 32 people were needed to take inventory. For facilities over 350,000 feet, an average of 64 people were needed. For warehouses 151,000-350,000 feet, 49 people were used. For 75,000-150,000-foot facilities, an average of 21 people were needed. And for facilities under 75,000 feet, 12 people on average were used to take inventory.

The store's inventory was taken by store employees within the store at 70% of the hardliners. An inventory-taking service was hired at 32%. Fourteen percent hired employees for inventory purposes only, and 11% used employees from another store.

Of the hardline retailers who used an inventory-taking service, nine used RGIS, six used Washington, and one used Capital. Four of nine respondents used RGIS in the warehouse/DC, one used Washington, one used Capital, and four used other services.

SPECIALTY: HARDLINES

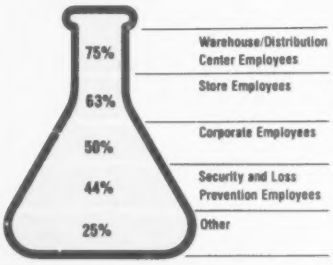
	All Specialty Hardlines	Participants by 1989 Sales Volume in $Millions			
		Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	37	19	10	3	5
Number of Responses to this Question	33	16	10	2	5
Under $50,000	12	11	1	—	—
$50,000 to $199,999	9	5	4	—	—
$200,000 to $999,999	8	—	4	2	2
$1,000,000 or more	4	—	1	—	3
Average Cost of Physical Inventory Taking (in $ thousands)	$673	$41	$243	$400	$3,666

The cost of taking inventory in 1989 averaged $673,000. For hardliners with revenues of more than $1 billion, the average cost was $3,666,000.

For companies with revenues of $400 million to $999 million, the average was $400,000. For companies with revenues of $100 million to $399 million, the average was $243,000. And for companies with revenues below $100 million, the average cost was $41,000.

SPECIALTY: HARDLINES

On Which Employees is Drug Testing Performed?



Total number of survey participants 37
Number of responses to this question 16

When is Drug Testing Performed?

Pre-employment Screening	69%
Only When Suspicion Exists	56%
Periodic Testing	13%
Other	13%

Total number of survey participants 37
Number of responses to this question 16

Why Doesn't Your Company Perform Drug Testing?

Management Philosophy	48%
We Use Pre-employment Honesty Testing	43%
Drugs are Not a Problem at Our Company	13%
Tests are Not Cost Effective	26%
Current and/or Pending Legislation	13%
Other	13%

Total number of survey participants 37
Number of responses to this question 23

Drugs in the Workplace

Of the 16 hardline retailers who performed drug testing, 75% tested their warehouse/DC employees, 63% tested their store employees, 50% tested their corporate employees, and 44% tested their loss prevention employees.

Sixty-nine percent tested during preemployment screening, 56% did it only when suspicion existed, 13% did it periodically, and another 13% cited "other."

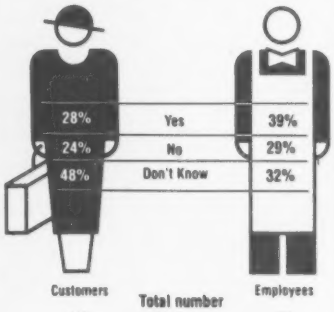
When asked why they are not currently performing drug testing, 48% cited management philosophy, 43% said they use preemployment honesty testing, 26% said the tests are not cost effective, 13% said drugs are not a problem at their company, and another 13% cited current and/or pending legislation.

Twenty-eight percent said there was evidence that apprehended customers had been using drugs. Twenty-four percent said there was no evidence, and 48% didn't know. Where employee theft was concerned, 39% said drug use was evident, 29% said it wasn't, and 32% didn't know.

Seventy-four percent knew that employee thefts were drug related because the employee confessed. Nine percent went by behavior, and 8% cited police reports. As for customers, 54% based their evidence on police reports, 16% went by confessions, 12% cited behavior, and 11% found evidence after conducting a search.

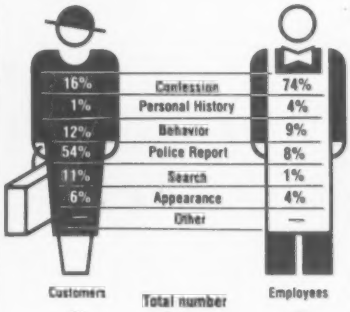
The police were involved in 62% of customer and 18% of employee apprehensions. They were notified in 18% of customer and 12% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



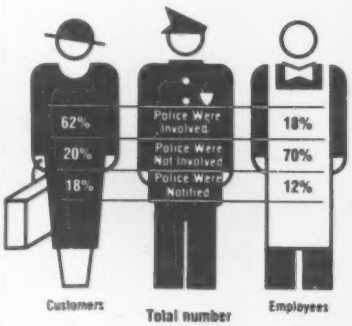
Customers	Total number of survey participants	Employees
37		37
29	Number of responses to this question	34

How Did You Know Thefts Were Drug Related?



Customers	Total number of survey participants	Employees
37		37
7	Number of responses to this question	13

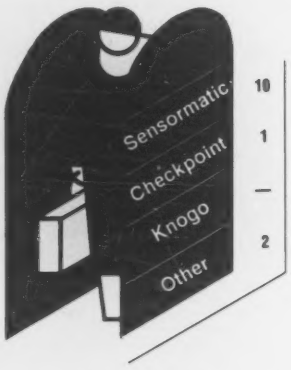
Were Police Involved in Apprehensions?



Customers	Total number of survey participants	Employees
37		37
7	Number of responses to this question	12

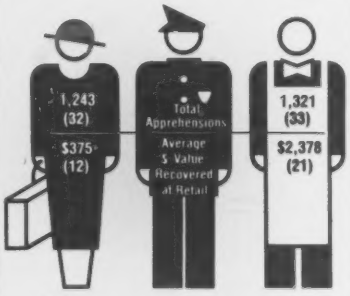
SPECIALTY: HARDLINES

What Brand of EAS Equipment are Retailers Using?
(In $ millions)



Total number of survey participants 37
Number of responses to this question 12

Apprehensions and Dollars Recovered



Total number of survey participants 37
( ) = Number of responses to this question

EAS

Of the hardline retailers who used EAS, 10 used Sensormatic, one used Checkpoint, and two responded "other." None used Knogo.

Apprehensions

The value of merchandise recovered from customer apprehensions was $312,000, or $375 per apprehension. The value of merchandise recovered from employee apprehensions was $1,759,000, or $2,378 per employee.

Fifty-seven percent of hardline retailers sought civil restitution from apprehended people in 1989. More than 200 cases were attempted and 164 were settled. Only $10,000 per company was recovered in 1989.

SUPERMARKETS

Of the 19 supermarkets responding to this year's survey, four had sales of $1 billion or more, seven had sales in the $400 million-$999 million range, two had sales of $100 million-$399 million, and six had sales of less than $100 million.

These companies operated an average of 74 markets; together, they operated 1,398.

Expenses and Capital Expenditures

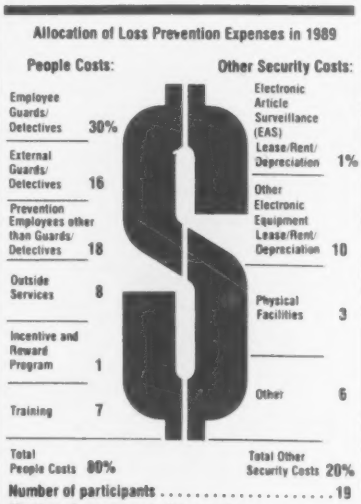
Supermarkets spent a total of $24,856,000 on loss prevention in 1989, or $1,462,000 per company. As a percentage of sales they spent 0.22%, up from 0.19% in 1988.

Supermarkets with revenues of $1 billion had expenses averaging $3,524,000, or 0.10% of sales. Companies in the $400 million to $999 million range averaged $1,360,000 or 0.22% of sales. Companies in the $100 million to $399 million range averaged $363,000, or 0.27% of sales. And supermarkets under $100 million averaged $129,000, or 0.30% of sales, a 50% increase from 1988.

Capital expenditures actually declined by 34%—the only such decline in the survey. The total was $1,810,000 or $139,000 per company—down from $211,000 in 1988. Alarms accounted for 61% of those expenditures; other electrical equipment accounted for 35%. EAS, which is largely inappropriate for a supermarket, accounted for just 3%.

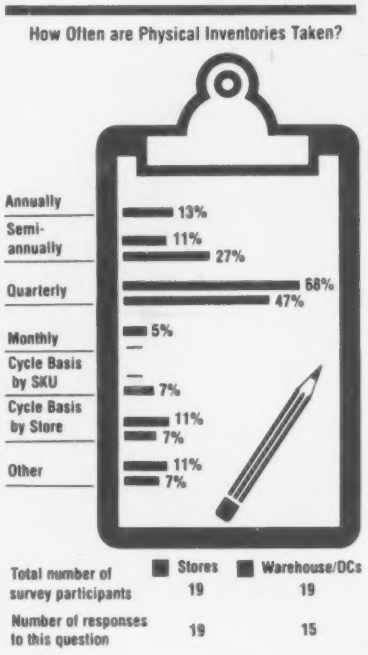
	All Supermarkets		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	19	19	6	6	2	2	7	7	4	4
Average Expenses as a Percent of Sales	0.22% (17)	0.19% (17)	0.30% (4)	0.20% (4)	0.27% (2)	0.25% (2)	0.22% (7)	0.23% (7)	0.10% (4)	0.10% (4)
Average Expenses (in $ thousands)	$1,462 (17)	$1,318 (17)	$129 (4)	$80 (4)	$363 (2)	$310 (2)	$1,360 (7)	$1,308 (7)	$3,524 (4)	$3,080 (4)
Total Expenses (in $ thousands)	$24,856 (17)	$22,410 (17)	$516 (4)	$318 (4)	$725 (2)	$620 (2)	$9,520 (7)	$9,154 (7)	$14,095 (4)	$12,318 (4)

( ) = Number of responses to this question.


Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/ Detectives 30%
External Guards/ Detectives 16
Prevention Employees other than Guards/ Detectives 18
Outside Services 8
Incentive and Reward Program 1
Training 7
Total People Costs 80%
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation 1%
Other Electronic Equipment Lease/Rent/ Depreciation 10
Physical Facilities 3
Other 6
Total Other Security Costs 20%
Number of participants 19
Number of responses to this question 18

People costs accounted for 80% of the supermarkets' expenses. Internal and external labor accounted for 72%. For respondents with revenues below $100 million, people costs accounted for 78% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 80%; for companies in the $400 million-$999 million range, their costs were 82%; and for companies with revenues over $1 billion, people costs accounted for 80% of loss prevention expenses.

SUPERMARKETS



Physical Inventory Approaches

Two respondents took store physical inventories twice a year, two took it on a cycle basis by store, one took it monthly, and 13 took it on a quarterly basis. Four supermarkets took their warehouse/DC inventory twice a year, two took it annually, seven took it quarterly and two took it on a cycle basis.

All of the supermarket respondents completed their store inventories in one day or less. Ten of 13 respondents completed warehouse inventory in one day; three of the 10 had facilities over 350,000 feet. Two respondents took two days and one took one-and-a-half days.

Supermarkets by Retail Store Size in Square Feet	Number of Days							
	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	—	—	—	—	—	—	—	—
2,500 to 7,499	—	—	—	—	—	—	—	—
7,500 to 19,999	2	1	—	—	—	—	—	3
20,000 to 49,999	4	9	—	—	—	—	—	13
50,000 to 99,999	—	2	—	—	—	—	—	2
100,000 or More	—	—	—	—	—	—	—	—
All Supermarkets	6	12	—	—	—	—	—	18
Under 75,000	NA	4	—	—	—	—	—	4
75,000 to 150,000	NA	3	—	—	—	—	—	3
151,000 to 350,000	NA	—	—	1	—	—	—	1
Over 350,000	NA	3	1	1	—	—	—	5
All Supermarkets	NA	10	1	2	—	—	—	13

Total number of survey participants 19

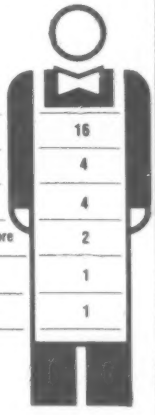
NA = not applicable.

SUPERMARKETS

Supermarkets by Retail Store Size in Square Feet	Average	Minimum	Maximum
Under 2,500	— —	— —	— —
2,500 to 7,499	— —	— —	— —
7,500 to 19,999	12 (3)	8 (1)	15 (1)
20,000 to 49,999	15 (13)	6 (2)	28 (1)
50,000 to 99,999	33 (2)	15 (1)	50 (1)
100,000 or More	— —	— —	— —
All Supermarkets	16 (18)	6 (2)	50 (1)
Supermarkets by Warehouse/DC Size in Square Feet			
Under 75,000	5 (4)	2 (1)	10 (1)
75,000 to 150,000	85 (3)	35 (1)	140 (1)
151,000 to 350,000	8 (1)	8 (1)	8 (1)
Over 350,000	64 (5)	10 (1)	100 (1)
All Supermarkets	46 (13)	2 (1)	140 (1)

Total number of survey participants 19
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	16
Store Employees Within the Store	4
Employees Hired for Inventory Taking Purposes	4
Store Employees From Another Store	2
Other Employees	1
Other	1

Number of participants 19

Number of responses to this question 19

An average of 16 people per supermarket were needed to take a store physical inventory. For stores 50,000-99,999 feet, it took 33 people. For 20,000-49,999-foot supermarkets it took an average of 15 people. And for 7,500 - 19,999 foot markets, it required an average of 12 people.

In the warehouse/DC, an average of 46 people were needed to take inventory. For facilities over 350,000 feet, it required an average of 64 people. Only one respondent had a 151,000-350,000 foot facility, and that company used just eight people. For 75,000-150,000 foot warehouses, it took 85 people on average. And for facilities under 75,000 feet, it required an average of just five people.

Eighty-four percent hired an inventory-taking service to take inventory in their stores. Twenty-one percent used employees hired for inventory purposes only, another 21% used store employees within the store, and 11% used store employees from another store.

Of the supermarkets that used an inventory-taking service, 81% used RGIS and 38% used Washington. Two supermarkets used RGIS in the warehouse/DC, and another two used services other than RGIS, Washington or Capital.

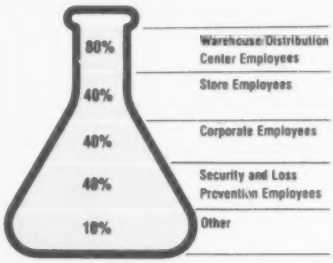
SUPERMARKETS

	All Supermarkets	Participants by 1989 Sales Volume in $Millions			
		Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	19	6	2	7	4
Number of Responses to this Question	14	6	2	3	3
Under $50,000	7	5	1	1	—
$50,000 to $199,999	1	1	—	—	—
$200,000 to $999,999	4	—	1	2	1
$1,000,000 or more	2	—	—	—	2
Average Cost of Physical Inventory Taking (in $ thousands)	$547	$24	$306	$173	$2,130

The average cost of taking inventory was $547,000 per supermarket. For companies with revenues of $1 billion or more, the average cost was $2,130,000. For companies with revenues of $400 million to $999 million, the average was $173,000. Two participants with revenues between $100 million and $399 million reported average inventory cost of $306,000. For supermarkets with revenues under $100 million, the average cost was $24,000.

SUPERMARKETS

On Which Employees is Drug Testing Performed?



Total number of survey participants 19
Number of responses to this question 10

When is Drug Testing Performed?

Pre-employment Screening	80%
Only When Suspicion Exists	30%
Periodic Testing	30%
Other	20%

Total number of survey participants 19
Number of responses to this question 10

Why Doesn't Your Company Perform Drug Testing?

Management Philosophy	80%
We Use Pre-employment Honesty Testing	20%
Drugs are Not a Problem at Our Company	30%
Tests are Not Cost Effective	20%
Current and/or Pending Legislation	10%
Other	10%

Total number of survey participants 19
Number of responses to this question 10

Drugs in the Workplace

Of the 10 supermarkets who test their employees for drugs, 80% tested their warehouse/DC employees, and 40% tested their store, corporate, and loss prevention employees.

Eighty percent tested during preemployment screening, 30% tested periodically, and another 30% tested only when suspicion existed.

When asked why they didn't currently test, 80% cited management philosophy, 30% said drugs were not a problem at their company, 20% said they use preemployment honesty testing, and another 20% said the tests are not cost effective.

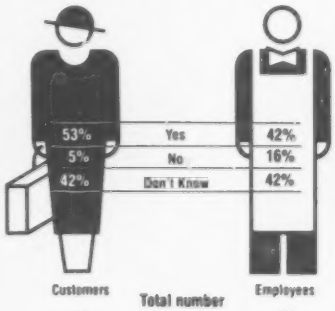
Fifty-three percent said drug use was evident in customers apprehended for shoplifting. Forty-two percent didn't know. Where employee theft was concerned, 42% believed drugs were evident and 42% didn't know.

Those participants that said drug use was evident estimate that 21% of their total customer apprehensions and 11% of their total employee apprehensions were drug related.

How did they know? At 41% the apprehended employee confessed, and at 23% the employee was searched and found with evidence. As for apprehended customers, at 12% they confessed to drug use, at 28% they were searched and found with evidence, at 16% their behavior made it evident, and at 36% it was based on the customer's appearance.

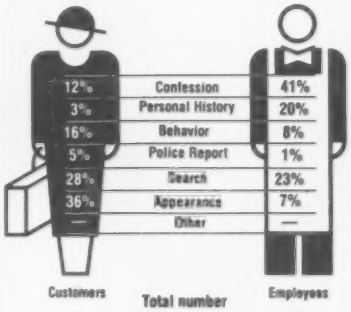
The police were involved in 67% of customer apprehensions and a survey-high 74% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



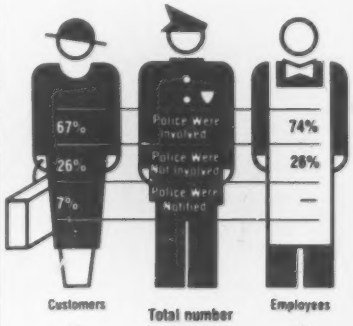
Customers		Employees
19	Total number of survey participants	19
19	Number of responses to this question	19

How Did You Know Thefts Were Drug Related?



Customers		Employees
19	Total number of survey participants	19
6	Number of responses to this question	5

Were Police Involved in Apprehensions?



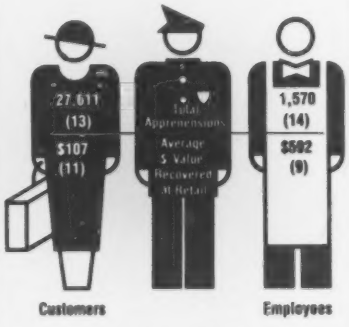
Customers		Employees
19	Total number of survey participants	19
7	Number of responses to this question	5

SUPERMARKETS

What Brand of EAS Equipment are Retailers Using?
(in $ millions)

Total number of survey participants 19
Number of responses to this question 5

Apprehensions and Dollars Recovered



Total number of survey participants 19
( ) = Number of responses to this question

EAS

Of the supermarkets that used EAS, 80% used Checkpoint equipment, only 20% used Sensormatic (the industry's brand leader), and 10% used other brands.

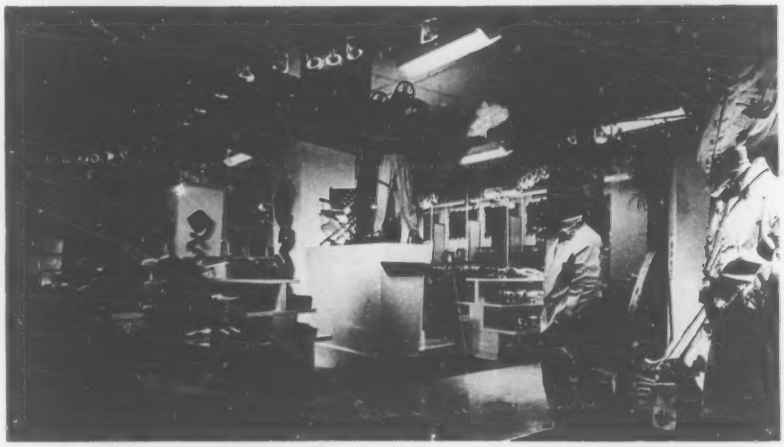
Apprehensions

The participating supermarkets apprehended 27,611 customers and 1,570 employees in 1989. The total value of merchandise recovered from apprehended customers in 1989 was $751,000, or $107 per apprehended customer. The value of merchandise recovered from apprehended employees last year was $253,000, or $592 per apprehension.

Only 37% of supermarkets sought civil restitution from apprehended customers and employees in 1989. More than 8,000 cases were attempted and almost 3,000 were settled at an average recovery of only $47,000 per company. In 1988, the average recovery per supermarket was $55,000.

A CHICAGO CRIME STORY

A Chicago Crime Story: Score one for the good guys



Sometimes, loss prevention is a frustrating exercise in damage control. But once in a while, it is as neat, clean and satisfying as an old Hollywood crime drama. Take the case of the recently concluded "Chicago sting" operation.

About two and a half years ago, in May 1988, Lew Shealy* decided he'd had enough of professional shoplifters. "I wasn't sure exactly how much they were taking, but I was sure they were killing us," says the then-VP of Loss Prevention for Marshall Fields.

So he approached the FBI and the sheriff of Cook County, Illinois, James O'Grady, and proposed a daring solution: an undercover "sting" operation, run by the sheriff's department and financed by Chicago-area retailers.

With the FBI's blessing, Sheriff O'Grady agreed to help and Shealy went into action, recruiting four other retailers to bankroll the operation. The four companies—Carson Pirie Scott, Evans Furs, Lord & Taylor and Nieman Marcus—contributed an initial $30,000, which they used to rent a storefront in a Chicago suburb.

Next they went to work on the "store" itself. The retailers contributed fixtures and inventory (all apparel), and five Cook County detectives were brought in for training. They learned to run the register and wait on customers, and of course, how to operate the closed-circuit television system that would be used for surveillance.

Open for business: Sixty days later, with everything in place and running properly, the store opened for business. To the criminal world, it soon became known as a place to sell stolen merchandise—a fencing operation called J & O Clothiers (for James O'Grady). To the loss-prevention community, it was the first privately funded sting operation in retail.

J & O's undercover men got things rolling by sizing up the "competition" and learning that other fences in the area were paying 25 cents on the dollar. They set their price at 30 cents and before long, "thief traffic" picked up at the store.

The policemen didn't buy everything the shoplifters brought in—that might have aroused suspicion. But they did establish business relationships, and more important, they gained their confidence. Soon, the undercover men were learning all about the world of professional shoplifting in the Chicago area.

In the 18 months of the operation, the thieves talked openly about how, when and where they stole, casually revealing many of their trade secrets. There was so much easy camaraderie, the undercover men actually accompanied the thieves on shoplifting expeditions!

Tricks of the trade: How did they steal? As the shoplifters explained, they always worked in pairs, and would often use shopping bags with foil liners—these defeat EAS tags. Or they'd carry "booster" boxes—empty cartons wrapped up like gifts, with false bottoms.

They'd only go into a store at noontime, when it's crowded, or at around 5:00 p.m., when sales associates generally change

A CHICAGO CRIME STORY

shifts. And they loved to frequent stores with poor customer service. With indifferent or nonexistent sales help, it was much easier to steal merchandise.

And for these thieves, it was indeed easy. Of the dozens of professional shoplifters who frequented J & O Clothiers during the operation, Shealy says several stole as much as $10,000 a day, yet only two were apprehended by store detectives.

In the end, however, these people were a little too sure of themselves, and much too loose-lipped. Through their easy chatter, the police were able to identify 45 professional shoplifters in the Chicago area.

Many of them, Shealy says, actually volunteered their phone numbers and addresses. All the undercover men had to do was tell the criminals "the heat was on" and they might have to close down the store at any moment. "Give me your name and number," they'd say, "and we'll call you when our operation is up and running again."

Going out of business: By May of 1990, the police felt they had enough damaging information and the operation was concluded. By June, all 45 shoplifters were indicted by the Cook County Grand Jury and 13 were jailed. All had been videotaped in J & O Clothiers, and these tapes were distributed to areas stores, so their faces are now familiar in Chicago.

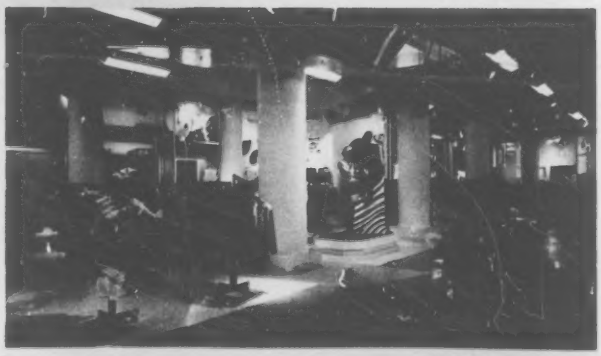
Also, some $1 million in stolen apparel was recovered from the store. And, through information passed along by the shoplifters, three "real" fencing operations were identified and shut down, and an additional $1 million was recovered.

But the operation proved to be even more of a law-enforcement bonanza than this. Through the shoplifters, a counterfeiting operation was uncovered and several arrests were made. Also, after learning of a mobile phone operation, the police staked out the company from which the phones were being stolen and apprehended several people. Finally, through information obtained from the shoplifters, three homicides were solved.

All in all, a pretty tidy operation. Back in the sheriff's office, you can picture the Hollywood ending. The undercover men finish typing their reports and slip their files into the file cabinet. They're grinning—just a little bit--as they put their feet up and have a leisurely cup of java.

J & O Clothiers. Case closed. Roll the credits.

* Lew Shealy is now VP of Loss Prevention at Eckerd Drug Company, a chain based in Largo, Florida.



APPENDIX

	PARTICIPANTS BY SEGMENT OF RETAIL									
	All Participants		Department Stores		Drug Chains		General Merchandise Mass Merchants		Specialty Apparel	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total number of survey participants	160	160	22	22	10	10	27	27	21	21
Average shrinkage percent	1.91% (109)	1.88% (106)	2.18% (21)	2.37% (21)	2.33% (6)	2.18% (6)	1.82% (26)	1.80% (26)	1.84% (19)	1.67% (18)
Less than 1%	0.65% (25)	0.70% (23)	0.93% (1)	1.13% (1)	0.89% (1)	0.74% (1)	0.67% (4)	0.87% (4)	0.76% (4)	0.63% (4)
1% to 2%	1.60% (45)	1.66% (45)	1.71% (11)	1.97% (11)	1.8% (2)	2.05% (2)	1.62% (13)	1.58% (13)	1.61% (8)	1.48% (8)
Greater than 2%	3.08% (39)	2.92% (37)	2.91% (9)	2.99% (9)	3.16% (3)	2.75% (3)	2.61% (9)	2.54% (9)	2.72% (7)	2.62% (6)
Total shrinkage dollars	$2,179 (105)	$1,936 (99)	$328 (21)	$346 (21)	$350 (6)	$213 (6)	$1,128 (25)	$1,079 (24)	$136 (19)	$79 (18)
Average shrinkage percent	1.20% (45)	1.20% (41)	— —	— —	2.13% (3)	2.05% (3)	1.01% (4)	0.76% (3)	1.85% (1)	— —
Less than .75%	0.34% (19)	0.35% (18)	— —	— —	— —	— —	0.54% (2)	0.61% (2)	— —	— —
.75% to 1.50%	1.18% (14)	1.20% (13)	— —	— —	1.50% (1)	1.50% (1)	0.97% (1)	1.07% (1)	— —	— —
Greater than 1.50%	2.60% (12)	2.74% (10)	— —	— —	2.44% (2)	2.33% (2)	2.00% (1)	— —	1.85% (1)	— —
Total shrinkage dollars	$710 (38)	$638 (35)	— —	— —	$91 (1)	$76 (1)	$260 (3)	$237 (3)	$1 (1)	— —

The numbers in parentheses represent the number of companies responding to this question.

APPENDIX

	PARTICIPANTS BY 1989 SALES VOLUME													
	Specialty Hardlines		Supermarkets		Direct Mail/ Mail Order/ Specialty Other		Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
	37	37	19	19	24	24	53	53	42	42	27	27	38	38
	1.98% (12)	1.58% (10)	0.93% (11)	1.05% (11)	2.32% (14)	2.28% (14)	1.62% (30)	1.52% (29)	2.17% (31)	2.24% (30)	1.67% (22)	1.60% (21)	2.15% (26)	2.08% (25)
	0.63% (5)	0.50% (4)	0.50% (6)	0.69% (5)	0.66% (4)	0.71% (4)	0.70% (9)	0.67% (11)	0.58% (7)	0.62% (6)	0.61% (6)	0.61% (5)	0.75% (3)	0.64% (3)
	1.36% (2)	1.41% (2)	1.45% (5)	1.60% (5)	1.44% (4)	1.43% (4)	1.57% (13)	1.52% (10)	1.67% (13)	1.61% (8)	1.62% (9)	1.55% (10)	1.54% (10)	1.56% (11)
	3.57% (5)	2.74% (4)	— —	— —	4.02% (6)	3.91% (6)	2.73% (8)	2.69% (8)	3.78% (11)	3.20% (6)	2.64% (7)	2.50% (6)	2.94% (13)	2.99% (11)
	$62 (10)	$56 (8)	$34 (11)	$24 (9)	$142 (13)	$140 (13)	$19 (30)	$15 (27)	$149 (29)	$141 (29)	$230 (21)	$167 (19)	$1,782 (25)	$1,614 (24)
	0.70% (21)	0.67% (20)	1.38% (7)	1.50% (6)	1.94% (9)	2.05% (9)	1.16% (18)	0.96% (16)	0.93% (11)	1.08% (10)	1.31% (4)	1.45% (4)	1.48% (12)	1.57% (11)
	0.31% (14)	0.30% (13)	0.56% (1)	0.73% (1)	0.20% (2)	0.19% (2)	0.31% (10)	0.23% (16)	0.25% (5)	0.21% (4)	0.43% (2)	0.56% (2)	0.61% (2)	0.64% (2)
	1.12% (5)	1.10% (5)	1.09% (3)	1.13% (2)	1.30% (4)	1.33% (4)	1.10% (3)	1.08% (3)	1.15% (5)	1.15% (5)	1.39% (1)	— (1)	1.22% (5)	1.23% (2)
	2.40% (2)	1.94% (2)	1.94% (3)	2.01% (3)	3.95% (3)	4.26% (3)	2.88% (5)	3.26% (3)	3.30% (1)	4.22% (1)	3.00% (1)	2.34% (2)	2.10% (5)	1.94% (7)
	$57 (20)	$65 (19)	$212 (6)	$172 (5)	$89 (7)	$88 (7)	$4 (15)	$3 (14)	$12 (8)	$10 (7)	$33 (4)	$36 (4)	$661 (11)	$589 (10)

APPENDIX

	PARTICIPANTS BY SEGMENT OF RETAIL											
	All Participants				Department Stores				Drug Chains			
	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4
Number of participants	160	160	160	160	22	22	2	22	10	10	10	10
Number of responses to this question	149	147	144	136	21	21	21	20	10	10	10	9
Security devices:												
Training programs	46	26	25	9	4	4	5	2	5	3	2	—
Guards/detectives	27	21	16	16	5	6	3	2	2	1	1	1
Electronic/magnetic tags	25	11	11	6	6	2	1	2	2	—	1	2
POS systems	20	24	17	20	1	5	—	4	1	4	1	1
Concealed TV monitors	10	14	16	9	4	1	4	1	—	—	1	1
Lock and chain	8	10	12	8	—	1	1	—	—	—	—	—
Limited access areas	7	9	12	12	—	—	—	—	—	—	1	2
Observation booths	2	3	1	4	—	—	1	—	—	—	—	—
Incentive for reporting theft	2	14	18	20	—	1	5	4	—	2	—	1
Fitting room attendants	1	4	4	7	—	1	1	3	—	—	—	—
Employee package control programs	1	6	7	16	1	—	—	2	—	—	2	—
Mirrors	—	5	5	9	—	—	—	—	—	—	1	1

	PARTICIPANTS BY SEGMENT OF RETAIL											
	All Participants				Department Stores				Drug Chains			
	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4
Total participants	160	160	160	160	22	22	2	22	10	10	10	10
Number of responses to this question	125	119	116	109	17	16	16	16	10	9	8	8
Security devices:												
Mirrors	49	10	17	11	11	2	1	—	2	—	3	—
Observation booths	12	18	11	15	—	1	2	5	2	2	—	2
Electronic/magnetic tags	10	8	10	2	1	—	—	—	1	—	—	—
Lock and chain	10	17	21	11	2	3	7	—	1	3	1	2
Fitting room attendants	10	5	9	6	1	1	1	1	—	—	1	2
Concealed TV monitors	9	8	5	4	—	2	—	—	—	—	—	1
Limited access areas	8	20	18	11	1	6	3	3	1	—	3	—
Guards/detectives	5	10	9	7	—	—	1	—	3	—	—	—
Training programs	4	1	2	5	—	—	—	—	—	—	—	—
Incentive for reporting theft	4	8	4	19	—	—	—	4	—	3	—	1
Employee package control programs	4	6	9	11	1	—	1	2	—	1	—	—
POS systems	—	8	1	7	—	1	—	1	—	—	—	—

APPENDIX

PARTICIPANTS BY SEGMENT OF RETAIL

General Merchandise/ Mass Merchants				Specialty Apparel				Specialty Hardlines				Supermarkets				Direct Mail/ Mail Order/ Specialty Other			
#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4
27	27	27	27	21	21	21	21	37	37	37	37	19	19	19	19	24	24	24	24
26	26	26	26	21	21	20	20	32	32	30	28	16	15	15	14	23	22	22	19
11	5	2	3	6	3	4	—	8	5	5	1	5	2	2	2	7	4	5	1
3	5	2	3	1	2	—	2	6	3	4	3	7	2	3	1	3	2	3	4
3	4	1	1	7	4	2	1	2	—	3	—	1	1	1	—	4	—	2	—
4	2	3	3	2	2	6	3	4	5	2	6	1	3	2	1	7	3	3	2
3	4	6	2	—	2	1	1	2	1	1	2	1	1	1	1	—	5	2	1
—	—	2	—	2	3	3	1	5	4	3	2	1	1	2	1	—	1	1	4
1	2	2	—	2	—	1	—	3	5	5	5	—	1	1	2	1	1	2	3
1	—	—	3	—	—	—	—	1	1	—	1	—	1	—	—	—	1	—	—
—	3	4	4	—	1	2	3	1	5	5	4	—	1	1	2	1	1	1	2
—	—	3	2	1	3	—	2	—	—	—	—	—	—	—	—	—	—	—	—
—	—	1	3	—	1	1	6	—	2	—	2	—	—	1	2	—	3	2	1
—	1	—	2	—	—	—	1	—	1	2	2	—	2	1	2	—	1	1	1

PARTICIPANTS BY SEGMENT OF RETAIL

General Merchandise/ Mass Merchants				Specialty Apparel				Specialty Hardlines				Supermarkets				Direct Mail/ Mail Order/ Specialty Other			
#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4
27	27	27	27	21	21	21	21	37	37	37	37	19	19	19	19	24	24	24	24
22	22	21	19	19	16	16	14	27	26	25	24	13	13	13	12	17	17	17	16
13	1	1	3	9	2	—	2	7	3	7	3	3	1	1	—	4	1	4	3
3	4	2	3	3	3	—	1	3	4	3	1	1	1	3	1	—	3	1	2
—	—	4	1	—	1	1	—	4	4	3	1	1	1	1	—	3	2	1	—
1	4	5	2	1	1	2	1	2	2	2	2	1	1	3	2	2	3	1	2
2	2	3	—	1	—	2	1	3	2	1	1	1	—	1	—	2	—	—	1
1	1	2	—	1	1	2	—	4	2	—	3	3	2	—	—	—	—	1	—
1	6	—	1	2	2	4	1	1	—	2	4	1	4	1	2	1	2	5	—
—	3	—	—	1	3	3	3	—	1	3	1	—	1	1	1	1	2	1	2
—	—	—	1	1	—	—	2	2	1	2	1	—	—	—	1	1	—	—	—
1	1	1	5	—	2	1	1	1	—	—	3	1	1	1	2	1	1	1	3
—	—	3	3	—	—	—	1	—	4	2	2	1	—	1	1	2	1	2	2
—	—	—	—	—	1	1	1	—	3	—	2	—	1	—	2	—	2	—	1

APPENDIX

	PARTICIPANTS BY SEGMENT OF RETAIL					
	All Participants		Department Stores		Drug Chains	
	Stores	Warehouse/DCs	Stores	Warehouse/DCs	Stores	Warehouse/DCs
Total number of survey participants	160	160	22	22	10	10
Number of responses to this question	158	140	22	21	10	10
LIFO	58	34	13	9	4	2
FIFO	23	15	3	3	2	1
Average	31	28	5	4	1	1
Total retail inventory method	112	77	21	16	7	4
LIFO	28	37	3	5	4	5
FIFO	23	27	—	—	—	1
Average	17	14	1	2	—	—
Total cost method	68	78	4	7	4	6

	PARTICIPANTS BY SEGMENT OF RETAIL											
	All Participants				Department Stores				Drug Chains			
	Customers		Employees		Customers		Employees		Customers		Employees	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	160	160	160	160	22	22	22	22	10	10	10	10
Total Aggregate Apprehensions	638,504 (128)	540,857 (119)	49,916 (138)	44,306 (128)	94,524 (21)	77,626 (19)	6,064 (21)	7,892 (19)	82,696 (8)	39,294 (6)	9,082 (9)	5,754 (8)
Value of Merchandise Recovered at Retail *(in $ thousands)*	$33,916 (112)	$27,305 (101)	$27,591 (121)	$24,161 (111)	$5,145 (18)	$4,841 (18)	$4,446 (19)	$3,627 (19)	$2,466 (9)	$526 (6)	$3,061 (8)	$2,272 (8)
Recovered per Apprehension at Retail	$196 (95)	$186 (83)	$1,350 (109)	$1,227 (97)	$165 (18)	$147 (17)	$650 (19)	$489 (17)	$48 (7)	$53 (4)	$349 (7)	$440 (7)
Apprehension of Females	128,752 (83)	N/A	12,732 (93)	N/A	42,629 (17)	N/A	3,151 (17)	N/A	3,173 (4)	N/A	1,421 (4)	N/A
Apprehension of Males	124,192 (87)	N/A	9,826 (100)	N/A	36,079 (17)	N/A	2,394 (17)	N/A	2,565 (4)	N/A	675 (4)	N/A

The numbers in parentheses represent the number of companies responding to this question.

APPENDIX

	General Merchandise/ Mass Merchandise		Specialty Apparel		Specialty Hardlines		Supermarkets		Direct Mail/ Mail Order/ Specialty Other	
	Stores	Warehouse/DCs	Stores	Warehouse/DCs	Stores	Warehouse/DCs	Stores	Warehouse/DCs	Stores	Warehouse/DCs
	27	27	21	21	37	37	19	19	24	24
	26	22	21	21	37	31	19	16	23	19
	17	10	6	4	5	3	8	2	5	4
	2	—	5	5	4	2	3	1	4	3
	6	6	8	9	3	1	3	4	5	3
	25	16	19	18	12	6	14	7	14	10
	3	6	1	1	8	9	5	7	4	4
	1	1	2	3	12	13	3	4	5	5
	1	1	2	1	8	6	1	1	4	3
	5	8	5	5	28	28	9	12	13	12

	General Merchandise/ Mass Merchants				Specialty Apparel				Specialty Hardlines				Supermarkets				Direct Mail/Mail Order/ Specialty Other			
	Customers		Employees		Customers		Employees		Customers		Employees		Customers		Employees		Customers		Employees	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
	27	27	27	27	21	21	21	21	37	37	37	37	19	19	19	19	24	24	24	24
	416,555 (21)	386,979 (21)	26,245 (22)	23,472 (21)	1,211 (15)	1,290 (15)	781 (19)	618 (18)	1,243 (32)	824 (29)	1,321 (33)	931 (30)	27,611 (13)	24,063 (12)	1,570 (14)	1,278 (13)	14,564 (18)	10,781 (17)	4,853 (20)	4,361 (19)
	$22,606 (21)	$19,545 (19)	$14,975 (21)	$14,165 (19)	$783 (15)	$946 (13)	$631 (17)	$466 (15)	$312 (21)	$138 (20)	$1,759 (27)	$1,613 (25)	$751 (14)	$570 (13)	$253 (12)	$111 (10)	$853 (14)	$738 (12)	$2,466 (17)	$1,908 (15)
	$87 (21)	$107 (19)	$801 (20)	$911 (19)	$225 (12)	$233 (11)	$3,044 (16)	$2,061 (14)	$375 (12)	$302 (12)	$2,378 (21)	$2,585 (19)	$107 (11)	$17 (10)	$592 (9)	$374 (7)	$367 (14)	$434 (19)	$728 (17)	$697 (14)
	66,198 (15)	N/A	5,143 (14)	N/A	584 (12)	N/A	417 (14)	N/A	120 (13)	N/A	362 (20)	N/A	9,335 (8)	N/A	462 (9)	N/A	6,613 (14)	N/A	1,776 (15)	N/A
	65,363 (15)	N/A	3,774 (14)	N/A	407 (11)	N/A	340 (17)	N/A	324 (18)	N/A	390 (24)	N/A	12,431 (8)	N/A	537 (9)	N/A	7,023 (14)	N/A	1,716 (15)	N/A

APPENDIX

	All Participants	Department Stores	Drug Chains
Total number of survey participants	160	22	10
Number of responses to this question	159	21	10
Company seeks civil restitution	88	12	7
Company does not seek civil restitution	71	9	3
Number of responses to this question	67	9	7
Total recoveries ($ thousands)	$7,038	$1,176	$1,714
Average recoveries	$105	$131	$245
Number of responses to this question	59	7	6
Total attempted	75,608	12,356	20,379
Number of responses to this question	52	7	6
Total settled	25,855	6,527	12,668

APPENDIX

PARTICIPANTS BY TYPE OF RETAILER				
General Merchandise/ Mass Merchants	Specialty Apparel	Specialty Hardlines	Supermarkets	Direct Mail/ Mail Order/ Specialty Other
27	21	37	19	24
27	21	37	19	24
21	8	21	7	12
6	13	16	12	12
14	7	15	6	9
$3,460	$123	$147	$281	$137
$247	$18	$10	$47	$15
13	7	16	4	6
32,328	77	219	8,269	1,980
11	5	14	4	5
3,062	34	164	2,854	546

	Participants by segment of retailer							Participants by 1989 Sales Volume				
	All Participants	Department Stores	Drug Chains	General Merchandise/ Mass Merchants	Specialty Apparel	Specialty Hardlines	Supermarkets	All Participants	Less than $100 million	$100-$399 million	$400-$999 million	$1 billion or more
mber rticipants	160	22	10	27	21	37	19	160	53	42	27	38
mber of sponses to is Question	131	19	9	26	18	29	13	131	36	37	25	33
erage pital penditures	$340	$365	$463	$696	$312	$73	$139	$340	$24	$101	$287	$994
tal pital penditures	$44,573	$8,936	$4,167	$18,103	$5,621	$2,114	$1,810	$44,573	$864	$3,720	$7,179	$32,810
alysis penditures	%	%	%	%	%	%	%	%	%	%	%	%
ctronic ticle rveillance	38	20	57	42	76	12	3	38	27	30	53	36
her ctronic uipment	30	63	15	34	8	25	35	30	50	43	24	25
ems	27	15	18	24	14	63	61	27	9	26	22	33
her	5	2	10	—	2	—	1	5	14	1	2	6

METHODOLOGY

Consumer credit for 1990 is expected to reach $738 billion by the end of this holiday season, marking an increase of 4.2% over the prior year, according to published reports. Even though the signs of economic slowdown are being reported everywhere, retailers are convinced that consumer credit will increase, and that marketing through credit will be an even more important factor in their future success.

Information, particularly customer profile data, is seen as the next major advance for credit card processors and in-house credit organizations. Credit card fraud, chargeback activity and credit card costs are all expected to increase.

These and other findings are detailed within this supplement, which offers the first Survey of Retail Credit Trends conducted by Arthur Andersen, a worldwide professional services firm.

The co-conductor of this survey is *Chain Store Age Executive*, which collaborated with Arthur Andersen in the design and distribution of the survey. In September, a jointly produced questionnaire was printed and mailed to 2,300 retailers across the country after being field tested by several retailers.

Responses were received from 159 companies, an indication that retailers have a substantial interest in this topic. The size of the response rate, 7%, has made comparisons by size of category and class of trade—and also size of company within each class of trade—possible.

The report includes a table of contents to provide easy access to detailed findings, as well as a section on overall findings. It continues with separate sections for department stores, specialty apparel retailers, specialty non-apparel retailers, discount stores, general merchandise/-mass merchants, home centers, convenience stores and supermarkets. A six-page appendix containing additional charts appears at the end of the report.

SURVEY DEMOGRAPHICS

PERCENT PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS

	All participants	Under $50	$50-$199	$200-$999	$1,000 or more
Convenience stores	10.32	25.00	50.00	18.75	6.25
Department stores	13.55	3.33	19.05	38.10	9.52
Discount stores	10.32	25.00	12.50	25.00	37.50
Mass merchants	4.52	28.57	0.00	42.86	28.57
Home centers	5.81	11.11	55.56	22.22	11.11
Specialty apparel	16.48	41.67	37.50	20.83	0.00
Specialty non-apparel	29.03	57.78	22.22	20.00	0.00
Supermarket	10.97	23.53	47.06	11.76	17.65
Total participants	100.00	37.42	29.68	23.23	9.68

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Survey of Retail Credit Trends

OVERALL FINDINGS

The 159 retailers that responded to the Arthur Andersen/*Chain Store Age Executive* Retail Credit Trends survey included 26 public companies and 133 private companies. The responding retailers represented all geographic areas of the United States, ranging from small, local retailers to multinational chains.

Approximately 37% of the respondents had sales of $50 million or less, 30% had sales between $50 million and $200 million and 33% had over $200 million in sales. Of the retailers that responded, 32 offered their own company credit, while 123 respondents offered third-party credit in their stores.

About 10% of the respondents completed the survey even though they did not presently extend credit to their customers. Department stores, general merchandise/mass merchants, discount stores, specialty apparel retailers, specialty non-apparel retailers, home centers, supermarkets and convenience stores will be examined.

Sales Trends: The sanguine retailers we surveyed predicted that retail sales, both in total and on a comparable store basis, would increase. While 60% of the survey respondents expect credit sales as a percentage of total sales to increase, only 5% expect a decline. Moreover, in spite of last fall's ever-present, gloomy economic news, a whopping 60% of our respondents expected comparable store sales to increase, while a mere 13% projected a decline.

Retailers also believe that credit sales are growing at a healthy pace. They say credit sales are becoming a greater percentage of their overall sales, and the trend is expected to continue. On average, credit sales represented one-third of total sales for both 1989 and 1990 fiscal years.

During 1990, average transaction amounts for cash sales increased by 8%, but average credit transactions increased by an even more robust 11% in the same period. The average credit transaction for survey respondents increased from $45 to $50—double the average cash transaction.

In 1990, average personal-check transactions decreased to $35 or approximately 7.8%, while average MasterCard, Visa and Discover card transactions increased approximately 10%. Lesser increases were reported on company-owned and private-label (store-label charge cards processed by outside vendors) credit cards.

Third-party credit sales increased approximately 9% to represent 25% of total company sales. Private-label sales as a percentage of total company sales remained unchanged at approximately 10%.

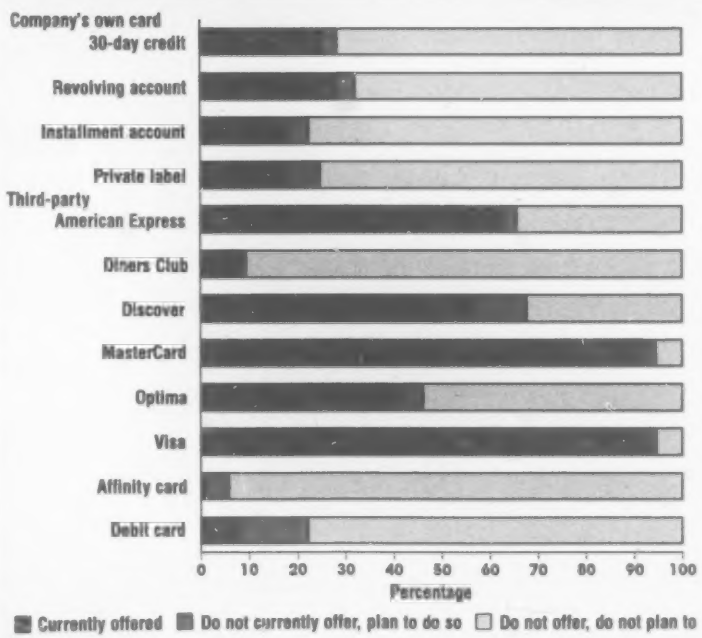
Costs of Credit: Retailers were most vehement in their responses when addressing chargebacks (bad credit) and discount rates (fees charged to retailers for accepting third-party credit cards).

Many retailers cited chargeback processing as an area for more cooperation and better service. However, more than half of the respondents admit that they presently do not monitor credit chargebacks by customers.

Additionally, half of the respondents have experienced credit-card fraud. The Nilson Report, a credit card industry newsletter, recently projected annual losses in excess of $400 million related to credit card fraud. Approximately 70% of all credit card fraud is generated from third-party credit cards, according to Nilson, and credit-card fraud has practically doubled in the last decade.

Retailers with their own credit operations report that the cost of their credit operations approximated 1% of sales and 2.25% of credit sales.

TYPE OF CREDIT



OVERALL FINDINGS

AVERAGE SALES TRANSACTION

AVERAGE SALES TRANSACTIONS*

	PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS							
	0-$50		$50-$200		$200-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989
Cash	$30.00	$30.00	$22.00	$21.50	$20.00	$18.00	$17.10	$18.75
Check	39.25	40.00	33.00	33.00	32.00	32.00	39.50	38.50
Credit	60.00	58.00	50.00	50.00	40.00	36.00	46.00	44.50

*Dollars

Retailers who carry private-label cards reported credit-card costs of 0.8% of sales and 1.9% of credit sales, while third-party credit card costs were reported to be 0.6% of sales and 2% of credit sales.

The average discount rate for all respondents was 1.9%. Of those who responded, 45% expect discount rates to increase while 23% project a decrease. One-third admitted that they didn't know.

With announced increases in interchange rates (the fees charged by banks and other clearinghouses for processing credit transactions), those projecting a decrease must be counting on lower rates due to the amalgamation of the merchant banking industry (see "What You Should Know about Merchant Banking in the Credit Card Arena," Page 11).

Interestingly, only 13% of the respondents will definitely pass increasing discount rates on to their customers, while 31% were undecided. The majority of those companies that will pass on their higher costs have annual revenue of less than $50 million. More than one-half of the surveyed retailers (56%) stated they would not pass on discount-rate increases to customers.

The vast majority of respondents are using bank or third-party processors, with approximately 20% of the respondents indicating they use service bureaus or other processing techniques.

Marketing: Billing stuffers, promotional mailings (including announcements of future promotions), and coupons were the most popular means used by retailers to enhance sales through their own credit-card customers.

More than one-third of the respondents stated that they planned to institute frequent-shopper programs to motivate their customers, while only 23.5% currently used this technique.

Frequent-shopper programs were most frequently used by companies within the $0-to-$200 million sales category.

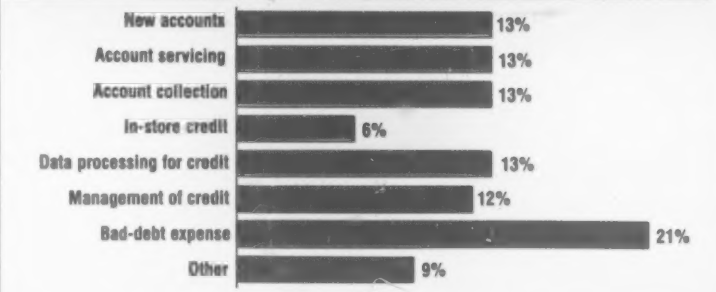
Seasonal advertising books and information related to future promotions were cited as the most popular techniques being planned. Nearly 15% of respondents intended to institute seasonal advertising books, and 35% presently use them.

About one-fifth of the retailers indicated they planned to use information on future promotions, while 45% are presently using these techniques. While 12% of the retailers project using more lenient credit terms to entice customers, 32% indicate they use this technique already.

A little more than one-third of our respondents offer instant credit to increase sales. For example, Sears recently announced a rapid-credit program, which it introduced in its stores and catalog ordering centers.

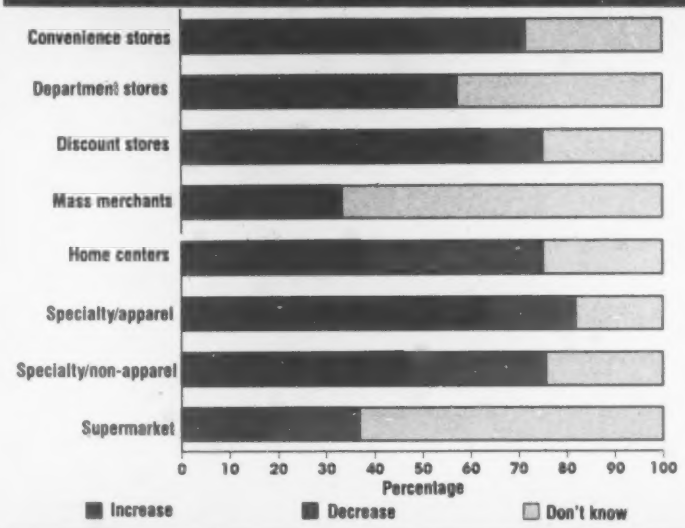
Sears promises to decide within five minutes at the cash register whether to authorize a Sears account for certain third-party credit card holders. According to

COST OF CREDIT ACTIVITIES AS A PERCENTAGE OF TOTAL CREDIT COSTS



OVERALL FINDINGS

DISCOUNT RATES FORECAST FOR THE NEXT 18 MONTHS



reports, Sears chose to implement this quick-credit plan in lieu of accepting third-party cards that have not stimulated sales sufficiently in a test market.

Only 27% of respondents offer incentives, such as first-day discounts, to new credit customers. About 13% of the survey respondents require a minimum charge amount, and the average minimum charge required is $10.

Interestingly, only 10% of respondents indicated that they sell their mailing lists. Additionally, only 27% of the retailers indicate that they establish goals to increase the number of credit card accounts.

There is very little special treatment afforded to the cash customer. Very few respondents (2%) offer a discount to cash customers and only 15% have "cash-

DISCOUNT RATES CHARGED BY 3RD PARTY PROVIDERS *

	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty apparel	Specialty non-apparel	Supermarkets
American Express	3.25	3.18	3.00	2.85	3.00	3.25	3.45	0.00
Diners Club	3.00	3.00	4.00	0.00	0.00	3.38	3.00	0.00
Discover	2.23	1.80	1.36	1.73	1.50	1.69	1.76	2.10
MasterCard	2.87	1.80	1.55	1.50	1.52	1.65	1.70	3.40
Optima	5.25	3.18	3.00	1.75	1.75	3.00	3.25	0.00
Private Label	3.00	1.90	2.80	0.00	2.10	6.00	2.30	0.00
Visa	2.87	1.80	1.55	1.50	1.52	1.65	1.70	3.40

*Median percent.

MARKETING TECHNIQUES USED WITH COMPANY-OWNED CREDIT CARDS

	PERCENT PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans
Billing stuffers	58.33	0.00	41.67	68.75	6.25	25.00	100.00	0.00	0.00	75.00	0.00	25.00
Promotional mailings	56.52	0.00	43.48	56.25	12.50	31.25	100.00	0.00	0.00	62.50	0.00	37.50
Coupons	40.91	9.09	50.00	43.75	18.75	37.50	93.33	0.00	6.67	62.50	0.00	37.50
Frequent shopper programs	9.52	33.33	57.14	12.50	37.50	50.00	76.92	15.38	7.69	25.00	25.00	50.00
Future promotions information	36.36	13.64	50.00	25.00	25.00	50.00	92.86	7.14	0.00	50.00	12.50	37.50
Seasonal ad books	23.81	14.29	61.90	25.00	12.50	62.50	76.92	7.69	15.38	50.00	12.50	37.50
Merchandise for credit customers only	28.57	4.76	66.67	18.75	12.50	68.75	53.85	7.69	38.46	37.50	0.00	62.50
More lenient credit terms during specific season	38.10	9.52	52.38	6.25	18.75	75.00	58.33	8.33	33.33	42.86	0.00	57.14

OVERALL FINDINGS

only" registers.

Retailers are more willing to accept third-party cards from suppliers who provide cooperative advertising, customer profiles and demographic information for target marketing.

Our respondents say mailing stuffers and address lists are a lower priority for them. American Express and Optima appear to provide retailers with the highest level of ancillary marketing services. The Discover card, MasterCard and Visa were the next most frequently noted by retailers for their ancillary marketing services.

The largest gap between the merchants' preference and the third-party performance centered around processing chargebacks. Several respondents were critical of the lack of assistance they receive in processing chargebacks. They indicated that chargebacks are an increasing problem for their businesses. It appears that retailers and third-party card processors need to work together in this area.

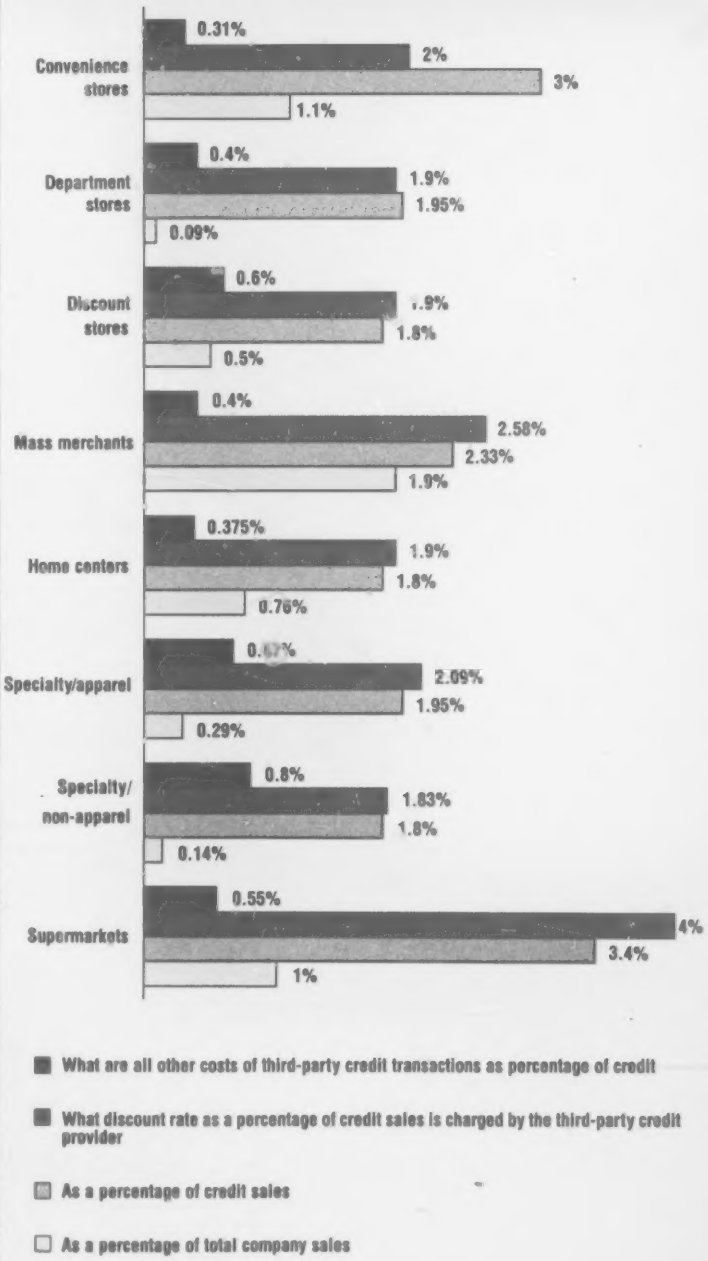
What's Changing? Scanning and automated-credit authorization are the two most popular applications of technology in retail credit. More than one-half of the survey participants presently use automated authorization and 13% plan to implement it within the next 12 to 18 months.

About one-third of the retailers are presently scanning and another one-quarter of the respondents plan to implement this technology. Generally, it is the larger retail companies that already have instituted scanning and automated authorization.

Of the respondents planning to implement these technologies, 40% report sales under $50 million, and more than one-half of those planning to implement automated-authorization techniques report sales under $200 million.

Autodial collection systems, which are designed to enhance the productivity of collections by increasing call volumes, appear attractive to the large retailers.

THIRD-PARTY CREDIT COSTS



OVERALL FINDINGS

While generally used by companies with sales over $200 million, more than two-thirds of the respondents planning to implement these systems report revenues in excess of $200 million.

Only 11% of respondents use electronic data interchange (EDI) in the credit function, and another 8% intend to implement this technology. Again, retailers intending to invest in EDI are predominantly larger companies with sales in excess of $200 million. The vast majority of respondents do not perceive either artificial intelligence or self-checkout as technologies for their use in the near future.

Automated teller machines (ATMs) installed in store locations were being used by approximately 11% of the survey participants, and 6% intend to install these systems within the next 12 to 18 months. Presently, all of the ATM users are companies with revenues in excess of $50 million. However, several companies with revenues of less than $50 million intend to install ATMs within the next 12 to 18 months.

The largest potential market for implementing credit technology, specifically scanning and automated authorization, appears to be smaller retailers with sales of less than $200 million. These technologies are well-represented in retailers with sales in excess of $1 billion.

VIP customer cards are used by approximately 11% of the respondents, and 15% stated that they are planning to implement VIP customer cards. Debit cards, far more popular in Europe than the United States, are presently being accepted only by 8% of the participating companies. Interestingly, another 10% of the companies indicated that they plan to implement debit cards within the next 12 to 18 months.

Companies using debit cards were evenly distributed among reporting companies. There was no particular revenue size criteria for companies presently using or planning to implement debit-card programs.

Credit securitization, perhaps the newest financing technique available predominantly to large retailers, allows retail companies to borrow money based on the money that its customers owe on their credit cards.

With securitization, groups of assets such as credit card receivables, are placed in a separate legal entity and money is borrowed against those assets or interests in the cash flow derived when those assets are sold.

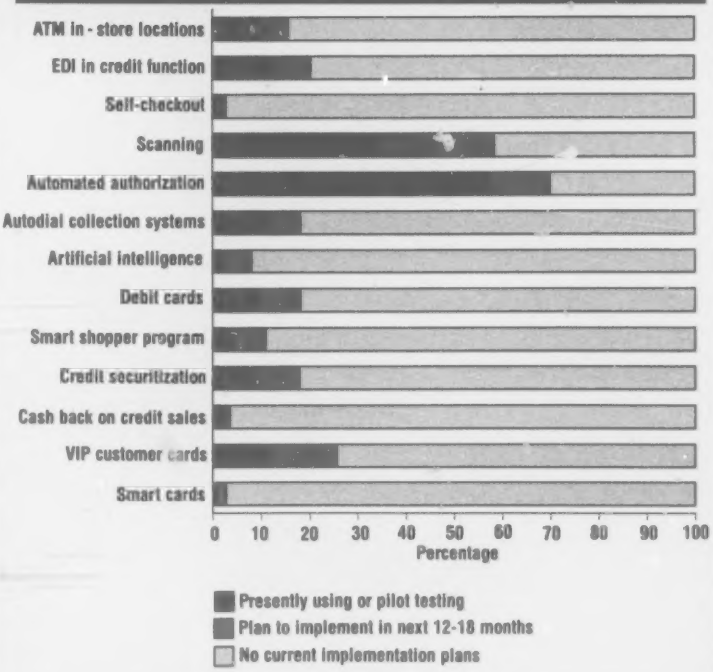
Already 10% of the survey respondents expressed intentions to pursue credit securitization financing in the near term. The majority of the companies that expressed an interest in credit securitization have revenues in excess of $200 million.

The least popular credit tie-in, at present, according to our survey participants, are smart cards, smart shopper programs and cash back on credit sales. Fewer than 10% of the companies participating in the survey expressed the intent to imple-

SERVICES IN ORDER OF PREFERENCE

	PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS			
	$0-$50	$50-$200	$200-$999	$1,000 or more
Customer profiles	1	2	3	3
Demographics information for target marketing	2	1	2	1
Cooperative advertising	3	3	1	2
Mailing stuffers	4	4	4	4

EMERGING RETAIL ISSUES



OVERALL FINDINGS

ment smart shopper programs. The interest in future implementation of smart cards and cash back on credit sales was minimal.

Recently, Sears began a 1% rebate, paid monthly, on certain purchases. The rebate technique may become more popular with retailers if the Sears program is successful.

Credit Technology: The majority of our survey participants report that they use magnetic swipe readers that are not integrated with the cash register. The clear trend, according to this survey, is to convert to magnetic swipe readers that are integrated with retailers' POS terminals.

The vast majority (86%) were authorizing credit at the point-of-sale, while very few (6%) were presently using VSAT (Very Small Aperture Terminals) technology. Another 6% were intending to implement VSAT within the next 12 to 18 months. VSAT refers to networks designed for satellite communications.

Dial-up leased lines are being used less frequently than other forms of communication. Interestingly, 17% of the survey respondents were still dialing a service bureau and entering card numbers on a touchtone key pad and over 29% of the respondents were calling in credit card numbers in some parts of their operations.

Presently, 64% of the participating companies print the credit information on their sales receipt, and an additional 2? % plan to in the near future. Al t one-half of the respondents store credit authorization in an electronic format in a central location, and 18% indicated that they planned to implement this technology.

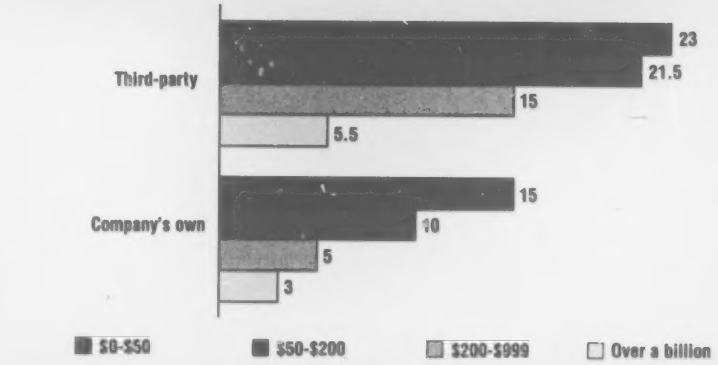
For retailers that centrally store credit authorization in an electronic format, about one-half provide bank deposit information in an electronic format, and 32% plan to implement this procedure.

Retailers reported that average credit authorization processing time at the register for third-party cards was 20 seconds, and 75% of the survey respondents report 30 seconds. The average authorization processing time for company credit cards was 10 seconds faster than third-party processing, and 75% of respondents report a processing time of less than 23 seconds, with an average time of 10 seconds.

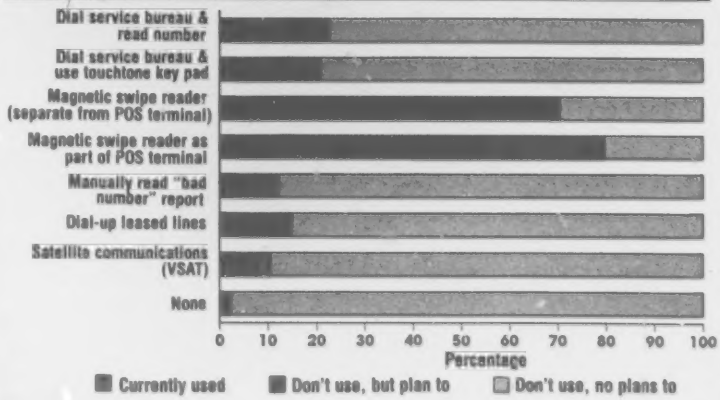
The results of this survey confirmed the fact that retailers continue to focus first, last and always on customer service. The leading reason reported for implementing credit authorization technology was to enhance customer service. Eliminating bad credit situations was cited second, with increasing register productivity and improving cash flow ranked higher than reducing payroll expenses or gaining a competitive advantage.

When credit authorization is denied at the register, 44% of the respondents indicated that they accept cash only; one-half of the respondents accept checks with proper identification or ask for another card. Only a few respondents indicated that they bypassed the unauthorized credit and made the sale as matter of company policy.

AVERAGE CREDIT AUTHORIZATION PROCESSING TIME IN SECONDS BY COMPANY REVENUE



CREDIT AUTHORIZATION TECHNIQUES USED?



STRATEGIC ISSUE

Banking In The Credit Card Arena

During the past several years, there have been dramatic developments in the audit services banks offer to retailers. The emergence of non-bank corporations in the retail processing (and card processing) business, the development of new products and services for retailers, and the increasing complexity of pricing illustrate the swelling competition for retailers' business.

In addition, several large non-bank corporations have been entering the retail credit business. National Bancard Corp., and National Data Corp., are among the current leaders in revenues from retail business.

Non-bank corporations with vast resources such as Electronic Data Systems Corp., a subsidiary of General Motors Corp., and British Telecom have entered the market, while others such as AT&T are poised to become heavy-hitters in the retail credit market.

Initially, these non-bank companies sought to compete in the retail processing business only, allowing commercial banks to remain as the retailers' primary contact and to effect the flow of cash through bankers' established payment systems.

But most recently, these non-bank competitors have begun to focus on the bankers' retailing portfolios (witness the recent acquisition by National Bancard Corp., of Bank of Boston's retail portfolio).

The current trend in banking is toward large economies of scale and significant investments in technology, products and services, especially in the area of technological improvements offered to retailers.

The non-bank companies believe they are better able to take advantage of the market because they are more willing to invest large sums in technology and equipment. Banks, they argue, are too focused on short-term results to make such large commitments.

Banks, on the other hand, argue that, with appropriate economies of scale, the investment in technology and equipment is easily justified. Bankers say their existing relationships with retailers, their ability to cross-sell products and services, and their existing, efficient payment systems allow them to continue to compete effectively in the retail-credit market.

Regardless of these efforts to keep abreast of competitors, bankers have experienced much consolidation of their retail/credit business and admit that economies of scale are a key factor.

Both banks and non-banks agree that the development of new products, as well as the enhancement of existing products and services for retailers, will affect their ability to attract and retain retail credit processing business.

The development of software that will provide information on customer shopping habits and trends is at the forefront of this movement. Such information will allow retailers to focus their marketing efforts more effectively, taking into account the habits and trends of their current customer base.

In the area of pricing, banks have traditionally charged retailers a flat discount rate designed to cover the cost of interchange, authorization, settlement and processing, as well as provide a return on investment.

The simple discount rate, however, exposes banks and other credit processors to the risk of unprofitable accounts.

Recently, banks and non-banks have moved to a pricing structure which unbundles the services provided to the merchant. For instance, a bank may pass through the interchange cost to the retailer and add on a fee for each transaction processed.

With interchange fees on the rise, retailers can expect their costs to increase. Partially offsetting such increases, however, is the consolidation of the processing of business toward the large bank or non-bank that can realize greater economies of scale.

Summary: The competition for retailers' business in commercial banking is strong and retailers can expect to see non-bank alternatives become more available. The competition will result in improvements in products and services for the retailers. The unbundled, pricing structure may increase the cost to the retailer. However, the retailer may see some tangible benefit in the area of improved or additional products and services.

DEPARTMENT STORES

Department store retailers responding to the Arthur Andersen/*Chain Store Age Executive* survey were evenly distributed among small, medium and large department store retailers. Department store retailers with operations throughout the United States are represented in the responses with the Northeast, Southeast and Midwest showing the strongest participation.

About one-third of the participating companies had sales of less than $50 million, one-quarter reported sales of $50 million to $200 million, and the remainder (40%) reported sales in excess of $200 million.

More than three-quarters of the responding department store operations offer their own credit card, and more than 95% of these retailers accept third-party credit cards as well.

Sales Trends: Department stores were slightly less positive than the total population of survey participants in projecting future sales. Approximately 39% of department store participants projected comparable store sales increases for the year.

Nearly 40% of these respondents also expected credit sales as a percentage of total store sales to rise. Approximately 12% of the department store officials surveyed expected comparable store sales and credit sales to decrease, reflecting a slightly gloomier view of the economy than the participants as a whole.

The record is better than the crystal ball, however. Average cash transactions at department stores increased by 10% to $27 during 1990, and credit transactions increased by 15% to an average of $45. Average personal check transactions remained undamaged during the two-year period at $40.

Credit is significantly more important to department store retailers than other retailers. On average, department store respondents reported that their own credit card sales accounted for almost one-half (47%) of total sales. Three-quarters of the participating department store retailers reported credit sales of between 40% and 54% of total sales. Credit sales, between 1989 and 1990, crept up by approximately 2%.

Department store participants reported that third-party credit card sales remained unchanged from 1989 to 1990, indicating that their own cards were more effective in increasing sales among their customer base.

Cost of Credit: Department stores say that the cost of their credit operations approximated 1.4% of sales and 2.7% of credit sales in 1990.

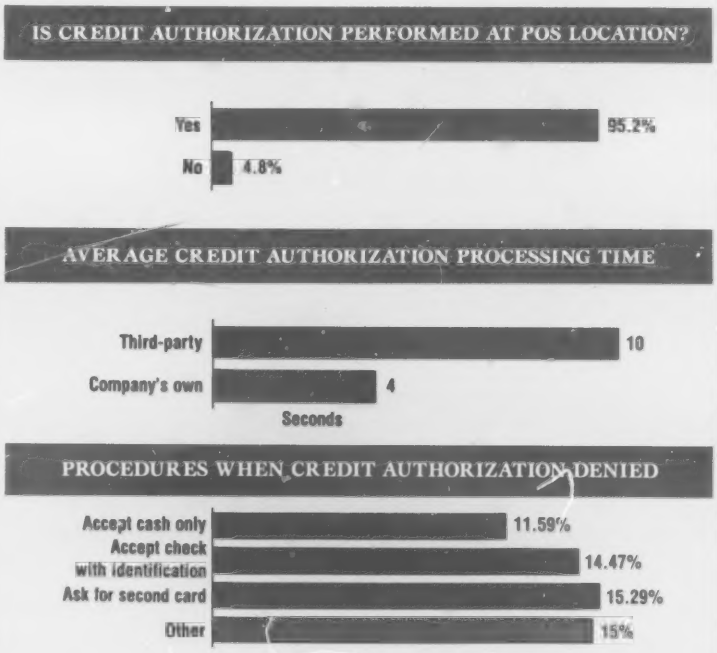
Department stores are finding it more expensive to process credit card transactions than some other segments of retailing. In fact, these respondents indicate that data processing of credit transactions runs around 16% of total credit costs—as opposed to 10% for all survey respondents.

But department stores have other retailers beat on the rest of the drill: They report that new accounts, account servicing, account collection, credit management, in-store credit and other expenses were each 1% less than other respondents as a percentage of total credit costs.

The majority of department store respondents (69%) have experienced an increase in credit card chargebacks during the last 24 months, but 60% of these same retailers report that they are comfortable with their procedures to monitor chargebacks.

Similarly, 60% of the department store retailers are experiencing some third-party credit card fraud. However, approximately 80% of these respondents indicate that the processors are either "somewhat" or "very" effective in assisting them in identifying excessive third-party chargebacks, which may be fraudulent.

More than one-half of the department stores responding to



DEPARTMENT STORES

the survey expect the discount rates for third-party credit cards to increase. But these retailers know who butters their bread; interestingly, none of these respondents expect to pass discount rate increases on to their customers in the form of higher prices.

Marketing: Department store retailers are smart and experienced marketers. They report a higher utilization of marketing techniques principally because they generally have their own credit card operations, and they have a history of communicating with their customers more frequently and directly than some other retailers.

Nearly all of the department store respondents utilize billing stuffers, promotional mailings and coupons. More than one-half of these department stores promote special programs, utilize seasonal advertising books and offer special merchandise for credit customers only.

More than one-half of the department store officials surveyed offer more lenient credit terms during holiday seasons, and 9% indicate that they plan to do so in the future.

While 40% of the department store participants offer frequent-shopper programs now, another 40% (the highest response of all retailers surveyed) plan to start frequent shopper programs in the future.

Most department store retailers prefer to receive demographic information for target marketing from their third-party credit providers. Customer profiles were ranked second in order of preference with cooperative advertising and mailing stuffers being the third and fourth choice of service. It was surprising that cooperative advertising was not ranked higher.

Credit Technology: More than 95% of department store retailers reported that they presently authorize credit at the point-of-sale, and over 90% of the participating department store retailers cited improved customer service as the leading reason for implementing credit authorization.

Eliminating bad-credit situations was the second most frequent reason reported, with reducing clerical errors and increasing register productivity the third and fourth most frequently mentioned reasons.

Improving cash flow, reducing payroll expenses and gaining a competitive advantage were the least frequently identified reasons.

Department stores reported

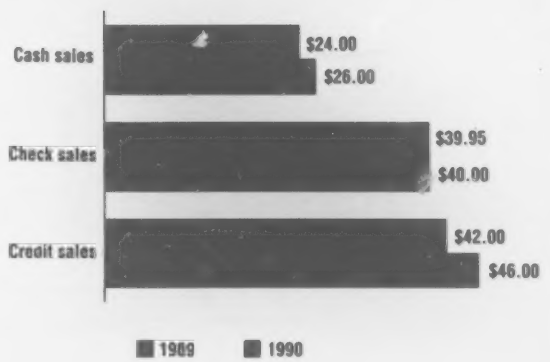
THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	83.33%	0%	16.67%
Third-party processors	55.56	0	44.44
Service bureau	12.5	0	87.50

DOES THE COMPANY OFFER . . .

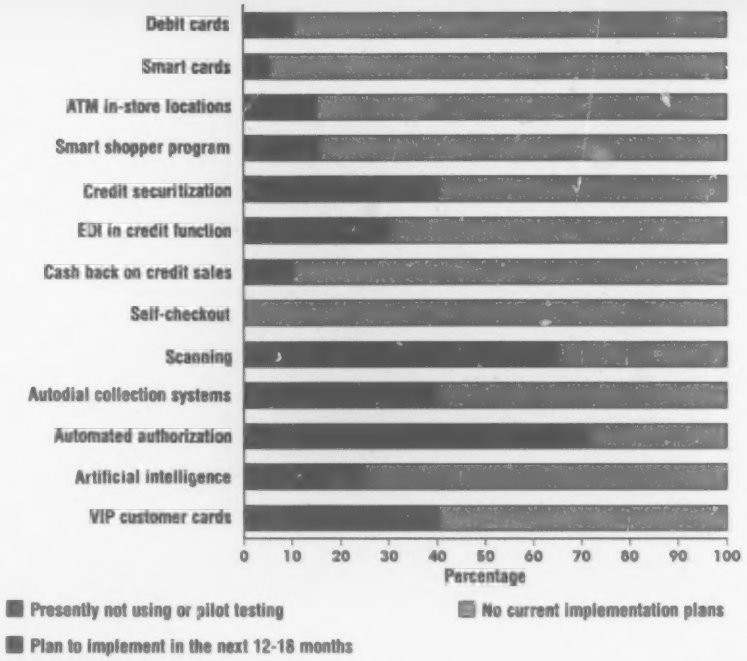
	Yes	No
Instant credit upon receipt of application	80%	20%
Incentives to new credit applicants	75	25
A discount to cash customers	0	100
"Cash-only" registers	0	100
In-store third-party credit applications	61.90	38.10
In-store automatic teller machines	9.52	90.48

AVERAGE SALES TRANSACTION



DEPARTMENT STORES

EMERGING RETAIL ISSUES



significantly faster average credit authorization processing time than non-department store retailers. These department store retailers reported an average credit authorization processing time of 11 seconds for third-party credit transactions with three-quarters of the respondents reporting a range of five to 30 seconds.

Credit authorization processing for their own credit cards was substantially faster. Respondents reported an average credit authorization processing time of 4.5 seconds with 75% of the respondents reporting within a range of three to 10 seconds.

Emerging Trends: Department store participants indicated very little interest in debit cards, smart cards, additional automatic teller machines, self-checkout and artificial intelligence. On the other hand, they report a keen interest in scanning, automated authorization, credit securitization, EDI in the credit function, autodial collection systems and VIP customer cards.

About two-thirds of the participating department stores reported the use of automated authorization, the largest response of all of the categories reporting. In addition, approximately 18% of the department stores were using autodial collection systems with an additional 18% indicating that they planned to implement these systems within the next 12 to 18 months.

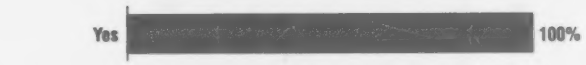
Approximately 25% of the respondents presently utilize EDI in the credit function, but no other department store retailer indicated that they were intending to invest in EDI in the near future. Fewer than one-third of the participants (30%) indicated that they presently were using VIP customer cards and an additional 12% indicated that they have plans to implement VIP customer card programs.

While only 12% of the department store respondents presently avail themselves of credit securitization financing, an additional 18% indicated that they have plans to pursue credit securitization over the next 12 to 18 months.

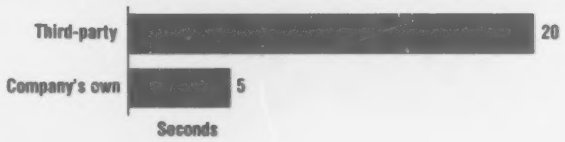
The majority of department store operators participating in the survey (72%) reported that they monitor consumer credit trends by geographic area for their own credit cards. This is more than three times the overall industry response rate. In addition, 20% of the department store retailers reported that they monitored consumer credit trends for third-party cards by geographic area, compared to 15% of respondents overall.

SPECIALTY RETAIL/APPAREL

IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



Specialty apparel retailers comprise the second largest category of retailers responding to the Arthur Andersen/*Chain Store Age Executive* survey. Nearly half of these apparel retailers reported revenues between $50 million and $200 million, while 10% of the participating companies reported revenues in excess of $200 million. The majority of these specialty companies were privately held.

Over half of these retailers were headquartered in the Northeast, and the remainder of the respondents were evenly distributed throughout the country. About a quarter of the responding specialty apparel retailers reported that they offered their own credit card, and all of these merchants offered third-party card services.

Sales Trends: Specialty apparel retailers were slightly more optimistic than department store retailers in projecting future sales. Approximately 42% expected comparable store sales to increase, while 21% forecast decreasing comparable store sales and 37% expected their sales to remain the same.

A good portion of the respondents, 60%, expect credit sales to become a larger percentage of total sales, while 30% of these apparel retailers expect credit sales to remain the same and 10% expect a decline.

The average cash transaction increased 5% to $43 during 1990, and credit transactions increased 13% to an average of $72 in 1990. Average personal-check transactions among the respondents decreased 8% over a 24-month period to $50.

It is interesting to note that the responses from the survey participants pointed to significantly higher average credit sales in the specialty apparel sector than in department stores—$72 compared to $45.

Similarly, average cash transactions reported by specialty apparel retailers were approximately $16 higher than for their department store cousins. Average check transaction amounts decreased at specialty apparel retailers, while department store participants report no significant change.

Approximately 15% of specialty apparel retailers reported that they offer a company credit card, while 14% use a private-label card serviced by a financial underwriter.

The majority of those retailers offering their own credit offered 30-day or revolving credit accounts.

For companies that offered their own credit card, credit sales were only slightly less as a percentage of total sales than for those companies who only offered third-party credit. For companies who offered private-label cards, credit sales were 10% of total sales, significantly less than companies offering their own card.

As expected, specialty apparel retailers rely heavily on third-party credit. All respondents to the Arthur Andersen/*Chain Store Age Executive* survey offer both MasterCard and Visa and 90% offer American Express. Over 60% of the respondents reported accepting Optima, while 47% accepted Discover. Other industry surveys have found that MasterCard and Visa are accepted by 80% of specialty stores, while American Express has achieved penetration at only half of the specialty units. Discover has less than 40% acceptance.

Additionally, 26% of the respondents indicated that they planned to implement the Discover card in the near future. Debit cards were accepted infrequently and very few respondents indicated an intention to implement them.

Cost of Credit: For these retailers, the cost of credit operations as a percentage of sales averaged 1.3% of sales and 2.4% of credit sales.

Among specialty apparel retailers offering company credit

SPECIALTY RETAIL/APPAREL

cards, the cost of credit operations approximated 0.8% of total company sales and 4.5% of credit sales. These costs are slightly lower as a percentage of sales than those costs experienced by department store operators.

Bad-debt expense as a percentage of total credit costs was reported to be 16%, less than that reported by department stores.

New accounts and account servicing costs were double the overall survey average, and higher than the department store average as well. Smaller, specialty apparel retailers with their own credit operations may need to perform a cost-benefit analysis to justify the continued use of their own credit.

The majority of specialty apparel retailers (71%) reported experiencing an increase in credit card chargebacks during the last two years. Only a quarter of these retailers experienced a decrease.

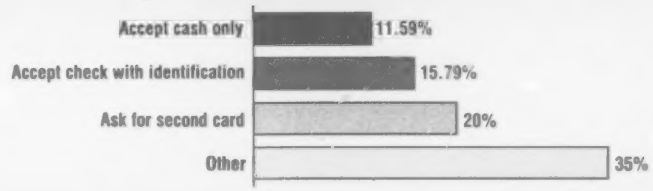
Only 33% of specialty apparel retailers reported that their procedures to monitor chargebacks by customer are effective. This is substantially lower than the percentage department stores reported.

Additionally, 72% of specialty apparel retailers reported experiencing third-party credit card fraud. Approximately 20% of specialty apparel retailers indicated that third-party credit processors were "very effective" in assisting them in identifying excessive or fraudulent chargebacks, and 70% were described as "somewhat effective."

Third-party credit costs represent 0.59% of total sales and 2.03% of credit card sales. The average discount rate was reported to be 1.95%, which was slightly higher than the average rate charged by MasterCard, Visa and Discover. The discount rates reported ranged from 1.64% to 3.4% of sales.

Marketing: As might be expected, specialty apparel retailers were often less aggressive than department store operators

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



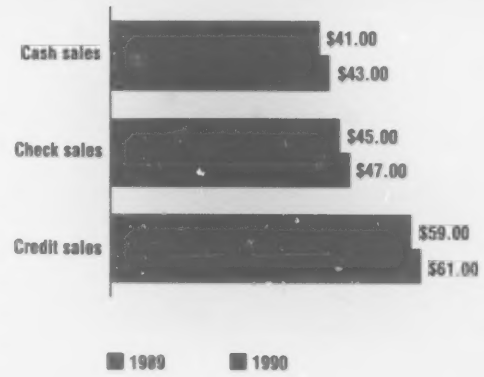
THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	64.71%	0%	35.29%
Third-party processors	59.09	4.55	36.36
Service bureau	11.76	5.88	82.35

DOES THE COMPANY OFFER . . .

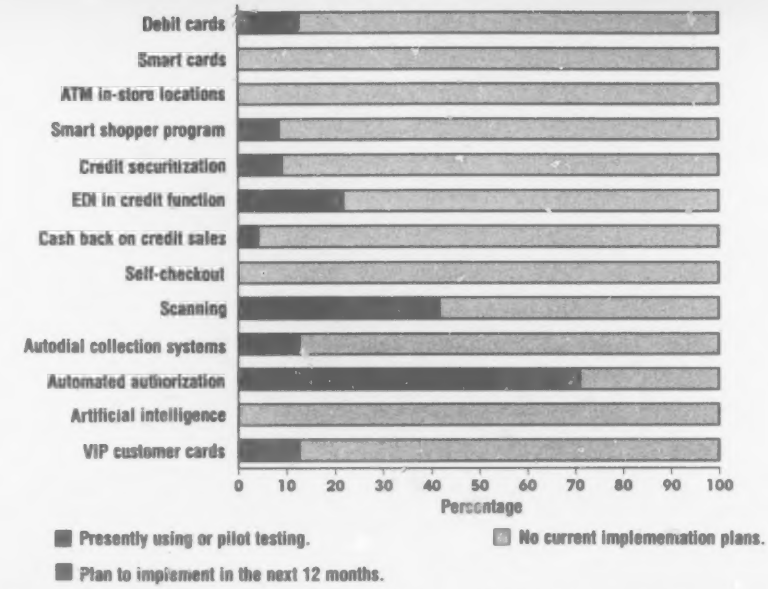
	Yes	No
Instant credit upon receipt of application	26.32%	73.68%
Incentives to new credit applicants	35.29	64.71
A discount to cash customers	0	100
"Cash only" registers	4.35	95.65
In-store third-party credit applications	63.64	36.36
In-store automatic teller machines	0	100

AVERAGE SALES TRANSACTION



SPECIALTY RETAIL/APPAREL

EMERGING RETAIL ISSUES



in using their billing systems as a marketing vehicle. Of the specialty apparel retailers with their own credit cards approximately one-third fewer than department stores reported using billing stuffers, promotional mailers, coupons, future promotion information and seasonal advertising books.

Frequent shopper programs were mentioned most frequently as the most likely technique to be implemented in the next 12 to 18 months. Less than one-third of the respondents used or intended to implement "merchandise for credit customers only" programs.

Approximately half of the respondents indicated that they presently offer, or intend to offer, more lenient credit terms during holiday seasons.

Specialty apparel retailers preferred customer-profile information and demographic information for target marketing over either cooperative advertising or mailing stuffers from their third-party, credit-card service. These responses paralleled the responses of the department store operators.

Specialty apparel retailers experiencing an increase in charge-backs were also more aggressive in commenting about the need to address this problem. Over half of the specialty apparel retailers were satisfied with third-party services related to in-store signage.

Credit Technology: All respondents noted that they currently perform credit authorization at the point-of-sale. These retailers installed credit authorization technology primarily to improve customer service and their cash float position.

The retailers also say that eliminating bad-credit situations, increasing register productivity, decreasing clerical errors and reducing payroll expenses were important problems to tackle through technological improvements.

Average time at the register was 20 seconds for third-party cards and five seconds for the company cards.

Emerging Trends: Specialty apparel retailers expressed very little interest in debit cards, smart cards, automatic teller machines, credit securitization self-check out and other technologies.

Approximately half of the respondents were using automated authorization systems and 19% reported they were scanning.

Twenty-four percent indicated that they intended to implement scanning within the next 12 to 18 months, and 14% reported that they intend to implement automated authorization in the near future.

About two-thirds of these apparel retailers expect discount rates for third-party credit cards to increase, 21% expect a decrease and 15% report not knowing. (See "What You Should Know About Banking in the Credit Card Arena," page 11).

Only 5% were certain they would pass such an increase on to their customers, while 65% said they would not and 30% didn't know.

STRATEGIC ISSUE

Company Credit—Should You Offer It?

Bankruptcies, bad debts, increasing working capital, deteriorating receivables, rising interest rates—these terms seem to buzz around the head of the ceo cornered by the dilemma of should we or should we not abandon company credit cards.

Should we keep that company credit card that represents only 5% or 10% of sales? Or is it better to abandon it, reduce all that staffing, decrease bank borrowings related to receivables financing and make life and financial existence a lot easier?

At first glance, this decision seems simple enough. One would think the ceo would merely call the financial management and request a cost-benefit analysis. Such analyses can be quite simple and straightforward.

In fact, by assuming that all company card sales can be converted to third-party credit sales, the cfo should be able to respond rather quickly.

As a first step, the finance department accumulates all credit costs that are directly attributable to offering the company card. Direct payroll and benefits, computer processing costs, bad-debt expense, supplies, business forms and credit-report expenses, postage, etc., should be readily identifiable.

Second, the financial executives estimate the carrying cost of the average, accounts-receivable balance. This calculation can be simple or sophisticated depending upon the relative degree of accuracy required.

A simple calculation would take the average of the monthly accounts-receivable balances and multiply it by the company's bank-borrowing rate. A more sophisticated and time-consuming calculation would compute this on actual, daily balances and properly utilize the retailer's cost of capital rather than its borrowing rate.

Finally, these costs need to be added and compared to an appropriate third-party rate. A rate of anywhere from 1% to 3% of third-party card sales is normally appropriate depending on the retailer.

Unfortunately, the cfo now only has the answer to the company's costs. She must also address a more difficult question inherent in the finance department's assumption that customers with company cards will faithfully substitute the use of third-party credit or better yet cash.

Secondly, the cfo may hear from the marketing people that billing stuffers, the data base and the opportunity to analyze customer profiles will all be lost if the company abandons its credit operations.

More analyses using several of the assumptions on lost sales need to be run. A myriad of assumptions can be easily manipulated with today's personal computer power.

The ceo may want to test market the decision in selected geographic markets, prior to making the final decision. Ultimately, there is a certain level of gamble to any decision to abandon any sales.

However, as the press for productivity and the desire to squeeze the bottom line for another tenth of a percent of profitability increases, more and more ceos may be seeking the answers to "should we or shouldn't we abandon company offered credit cards."

XYZ COMPANY

COST OF CREDIT ANALYSIS

		Two scenarios: Assume conversion to	
	Company card	MasterCard 100%	MasterCard 95%
Credit card sales	$3,500,000	$3,500,000	$3,325,000
Expenses*:			
Payroll	49,000		
Benefits	10,000		
Bad debts	35,000		
Computer processing	12,000		
Postage	18,000		
Carrying costs	30,000		
Miscellaneous expense	10,000		
Less: Finance charge increase	(54,000)		
Discount fee on third-party credit	0	66,000	63,000
Reduce gross profit (50%) for lost sales	0	0	88,000
Total expenses	$110,000	$66,000	$151,000
Differential increase/decrease in contribution		44,000	($41,000)

*All expenses are directly related to company credit card operations.

Source: Arthur Andersen research

SPECIALTY RETAIL/NON-APPAREL

The largest response to the Arthur Andersen/*Chain Store Age Executive* survey came from specialty retailers in the non-apparel segments. Included in this category are retailers of consumer electronics and appliances, sporting goods, furniture and home furnishings and gifts and accessories.

More than 30 of these retailers responded to the survey, and all geographic regions of the United States were represented.

Two-thirds of the responses came from retailers with revenues of $50 million or less, and the remainder divided evenly between retailers with $50 million-$200 million and $200 million-$999 million in sales. The majority of these retailers were privately held companies.

Approximately 20% of these respondents offered their own credit card to their customers, 25% offered private label and 100% accepted third-party credit cards.

Sales Trends: These non-apparel specialty retailers were generally optimistic in their expectations for sales. A healthy 70% of these respondents projected increasing comparable store sales and 12% expected them to remain unchanged from the prior year. Only 18% of this group expected a decline in comparable store sales.

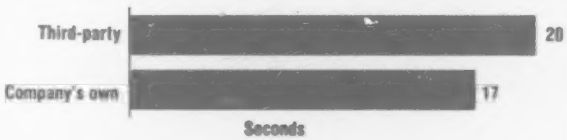
Almost three-quarters of these retailers expect credit sales to increase as a percentage of their total sales, while one-fifth project credit sales to remain the same and only 9% expect a decline.

The average cash transaction declined 1.7% between 1989 and 1990 to $29 and the average credit transaction increased by 4% to $52. Unlike department stores and specialty apparel retailers, average personal check transactions increased 2% over the prior year to $39.

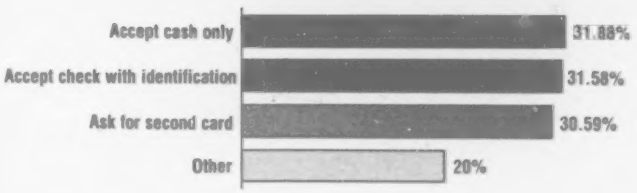
Credit sales comprised 30% of total sales for these companies, an increase of 2% over the prior period. The majority of those re-

IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?

AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



SPECIALTY RETAIL/NON-APPAREL

tailers offering their own credit offered 30-day or revolving-credit accounts.

For retailers that offered their own credit card, credit sales were 30% of sales, only slightly less as a percentage of sales than for those retailers offering only third-party credit. For those offering private-label cards, credit sales were 22% of total sales, significantly less than for retailers offering their own card.

Cost of Credit: For these retailers, the cost of credit operations as a percentage of sales averaged 1% of all sales and 2% of credit sales.

Credit operation costs for retailers with their own credit card averaged 1.5% of total sales and 3.1% of credit sales. These costs are higher than for the apparel specialty retailers and are closer to the department store retailers' reported costs.

Bad debt expense was reported to represent 15% of the total credit costs with account collection (19%), data processing (10%) and the remainder spread among management, in-store credit and other.

Almost half (45%) of the non-apparel retailers acknowledge an increase in credit card chargebacks, while 23% don't know and 32% reported a decrease.

A surprising 70% admitted that they did not monitor chargebacks by customer, and 47% reported that their company had experienced third-party credit card fraud.

About one-quarter of these respondents described third-party processors as "very effective," 43% said "somewhat effective" and 31% claimed the processors are "not effective at all" in assisting their company in identifying excessive or fraudulent third-party chargebacks.

Third-party credit costs were reported to represent 0.8% of total sales and 1.8% of credit card sales. The average discount rate was reported to be 1.8%, which equaled the average rate charged by MasterCard and

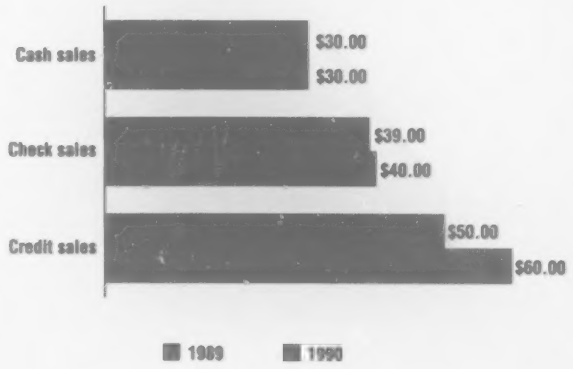
THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	79.41%	5.88%	14.71%
Third-party processors	60.71	0	39.29
Service bureau	14.29	4.76	80.95

DOES THE COMPANY OFFER . . .

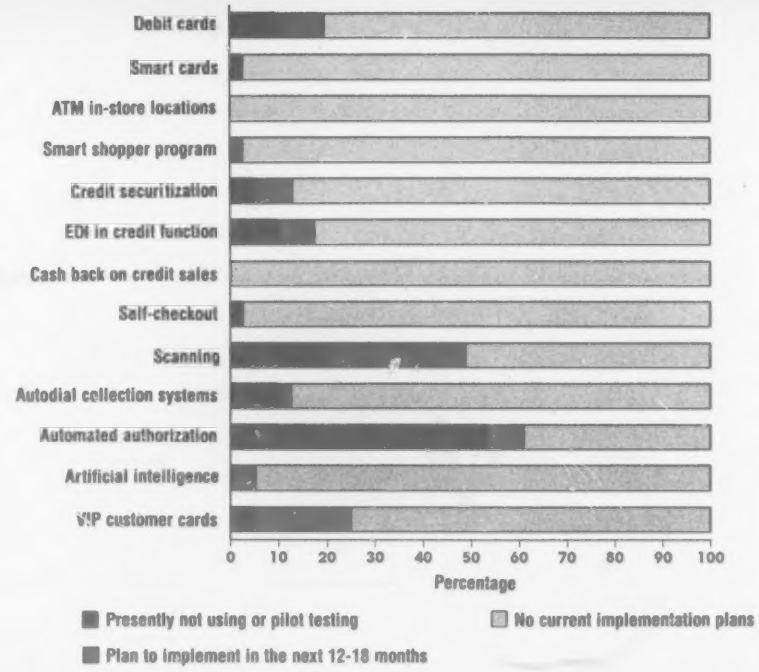
	Yes	No
Instant credit upon receipt of application	33.33%	66.67%
Incentives to new credit applicants	17.14	82.86
A discount to cash customers	0	100
"Cash only" registers	21.05	78.95
In-store third-party credit applications	63.16	36.84
In-store automatic teller machines	0	100

AVERAGE SALES TRANSACTION



SPECIALTY RETAIL/NON-APPAREL

EMERGING RETAIL ISSUES



VISA. The average private-label discount rate was 2.3% and the other cards ranged from 1.9% to 3.5% of sales.

Marketing: Non-apparel specialty retailers with their own credit card utilize billing stuffers, future promotions information and coupons in their marketing to some extent. Fifty-five percent use billing stuffers, 45% use promotional mailings and 36% use future promotion information. Very few of these retailers use "merchandise for credit customers only" or offer more lenient credit terms during holiday seasons to increase sales.

In this segment, specialty retailers equally prefer customer profiles, demographic information for target marketing and cooperative advertising as services they would like to receive from their third-party credit providers.

Credit Technology: A vast majority (85%) of these retailers perform credit authorizations at the point-of-sale currently, and the remaining respondents plan to do so.

These retailers installed credit-authorization technology primarily to enhance customer service. Technology to reduce clerical errors, increase register productivity, gain competitive advantage and reduce payroll expense were reported in the above order of importance.

Average credit authorization time at the register was 20 seconds for third-party cards and 23.5 seconds for the company cards, with three-quarters of the respondents falling within a range of 13.75 to 75 seconds.

Emerging Trends: Specialty retailers in this group expressed very little interest in debit cards, smart cards, automatic teller machines, self checkout and other technologies.

Approximately half of this group use or intend to use automated-authorization systems, and 20% scan. About one-quarter indicate that they intend to implement scanning within the next 12 to 18 months, and 21% reported that they intend to implement VIP customer cards in the near future.

Under half (42%) of the respondents report that they expect discount rates for third-party credit cards to increase, while 29% expect a decrease and 29% report not knowing. (See "What You Should Know about Banking in the Credit Card Arena," page 11). Only 20% were certain they would pass such an increase on to the customers, while 62% said they would not and 18% didn't know.

DISCOUNT STORES

More than 15 companies responding to the Arthur Andersen/*Chain Store Age Executive* Retail Credit Survey, identified themselves as discount stores, including discount department store operations, wholesale clubs and discount apparel retailers.

One-third of these firms reported sales in excess of $1 billion dollars, and the remaining respondents were divided evenly among the less-than-$50-million, $50 million to $200 million and $200 million to $999 million category.

Many of these retailers (40%) were headquartered in the Northeast, but the lion's share of the discounters operated either throughout the Northeast, Midwest and Southeast, if not, nationally. Public companies accounted for one-fourth of the discount store respondents.

Very few of these companies (14%) report offering their own credit card, another 0.5% offer private label, and all of them accept MasterCard, Visa and Discover. One-third accept American Express, Optima or other cards.

Sales Trends: Many discount stores predict strong growth in value-oriented retailing: 65% expect comparable store sales to increase, 21% expect sales to remain the same and only 14% expect a decrease. And a good many discount stores (57%) predict that credit sales as a percentage of total sales will increase, and none of them expect a decline.

The average cash transaction between 1989 and 1990 declined less than 1% to $20, while the average credit transaction increased 6% to $43. The average check transaction declined by 11% to $35.

Credit sales comprised 33% of total sales for discount stores, which reported a 1.9% increase in credit sales as a percentage of total sales from the prior year.

Those retailers offering their own credit card reported that these credit sales approximated

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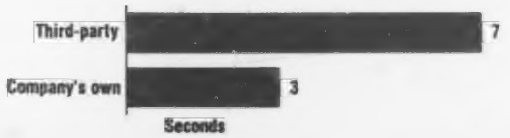
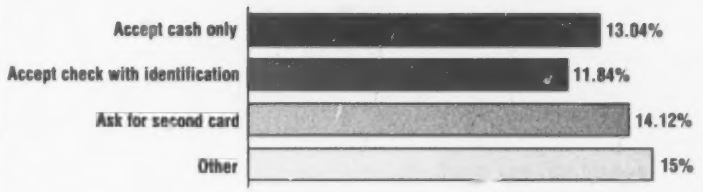
AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



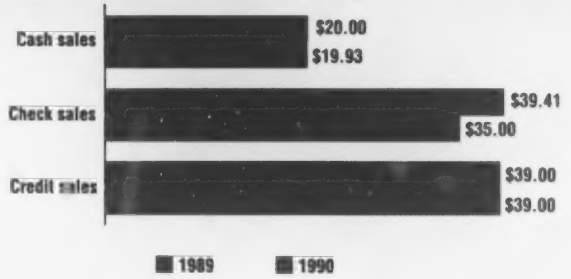
THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	61.54%	0%	38.46%
Third-party processors	63.64	0	36.36
Service bureau	22.22	0	77.78

DISCOUNT STORES

DOES THE COMPANY OFFER . . .	Yes	No
Instant credit upon receipt of application	20%	80%
Incentives to new credit applicants	20	80
A discount to cash customers	0	100
"Cash only" registers	37.5	62.5
In-store third-party credit applications	62.5	37.5
In-store automatic teller machines	20	80

AVERAGE SALES TRANSACTIONS



18% of sales in both 1989 and 1990. Among companies that offered private-label cards to their customers, private-label credit card sales were 18% of total sales each year.

Cost of Credit: For discount stores, the cost of credit operations as a percentage of total sales averaged 0.9% and 2.1% of credit sales. For companies offering their own credit card, credit costs averaged 1.7% of total sales and 3.4% of credit sales. These retailers generally did not provide information about the categories of their credit costs.

More than half of these companies report that credit card chargebacks are increasing, 17% report them decreasing and 25% don't know. Almost half of the discounters report that they do not monitor third-party credit card chargebacks by customer, and 46% have experienced third-party credit fraud.

About one-third of these discounters describe third-party card processors as "very effective," 40% as "somewhat effective" and 30% as "not effective at all" in assisting their companies in identifying excessive or fraudulent third-party chargebacks.

Third-party credit card costs represent 0.7% of total sales for discount stores, and these costs are 24% of credit sales. The average discount rate was 1.9% with a low rate of 1% and a high of 3% reported.

Three-quarters of the discounters report the discount rate to be within a range of 1.3% to 2.1%. The Discover card, with an average of 1.4% was the lowest rate with MasterCard and Visa second at 1.6%. The average private-label rate reported by discount stores was 2.8%.

Marketing: Two-thirds of the discount stores offering their own credit card to customers utilize billing stuffers and coupons. One-third of this group offers frequent-shopper programs, and this was the only marketing technique reported to be planned in the near future.

One-half of the respondents currently offer lenient credit terms during holiday seasons and utilize promotional mailings, future promotions information and seasonal advertising books to stimulate sales.

Discount stores put more stock in the power of co-op advertising than their cousins in department store and specialty retailing. They rank co-op advertising above demographic information for target marketing, customer profiles and mailing stuffers as the service they would most like to receive from their third-party credit providers.

Credit Technology: The lion's share of the discount stores report that they perform credit authorization at the point-of-sale. The remainder plan to implement the procedure. They site improving customer service as the primary reason to install credit authorization technology. Eliminating bad credit, increasing register productivity, increasing cash float and decreasing clerical errors and payroll expense were reported in this order of importance.

The average credit authorization time at the register was reported to be 11 seconds for third-party credit cards and three seconds for company cards, with 75% of the respondents falling within a range of two to five seconds.

Emerging Trends: Discount store operators as a group reported little interest in smart cards, smart-shopper programs, EDI in credit, cashbacks on credit sales, or artificial intelligence.

Almost two-thirds were presently scanning, and another 23% intend to implement scanning within the next 12 to 18 months. While only 23% offer VIP customer cards, an additional 23% plan to implement them.

A vast majority (92%) used automated authorization, and the remainder plan to implement this technology within 12 to 18 months. Thirteen percent of the discount store operators responding to this question indicated that they plan to implement self-checkout within the next 12 to 18 months.

GENERAL MERCHANDISE/MASS MERCHANTS

Eight reporting retailers responding to the Arthur Andersen/*Chain Store Age Executive* Retail Credit Survey classified themselves as mass merchants. Two of these companies reported revenues in excess of $1 billion, three reported revenues in the $200 million to $999 million range and the rest reported revenues under $50 million.

One-half of the general merchandise retailers were headquartered in the Northeast, with the other one-half representing the Southeast, Midwest and Southwest. Two of these mass merchants are public companies.

Three of these retailers offer their own credit card to customers, and none of them utilize private-label card services. All of these participants accept Visa, MasterCard and Discover, and one reported accepting American Express.

Sales Trends: Economists may fret, but more than one-half of the general merchandise/mass merchants report that they expect comparable store sales to increase, 29% expect them to remain the same and 14% expect a comparable store sales decrease.

The mass merchandisers also have a good feeling about plastic: 43% of these companies project credit sales as a percentage of total sales to increase in the future, and the remainder expects no change.

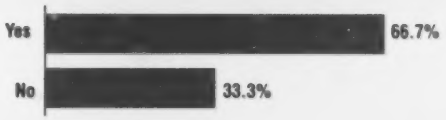
The average cash transaction between 1989 and 1990 remained unchanged at $23, while the average credit sales transaction rose 2.7% to $56. Personal check sales increased by 1.9% to $52.

Credit sales that include third-party credit and company card credit sales averaged 30% of sales for general merchandise/mass merchants.

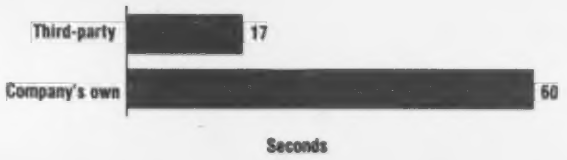
Cost of Credit: The cost of credit among the general merchandise/mass merchants averaged 0.4% of total sales and 1.9% of credit sales. The number of responses to questions relating to categories of credit costs was insufficient to report meaningful findings.

Nearly 40% of this group reported that credit card chargebacks were increasing, and the same amount reported them decreasing. Twenty percent were unaware of any trend. While 60% of these companies report that they monitor credit card chargebacks by customers, only one-half experience third-party credit card fraud.

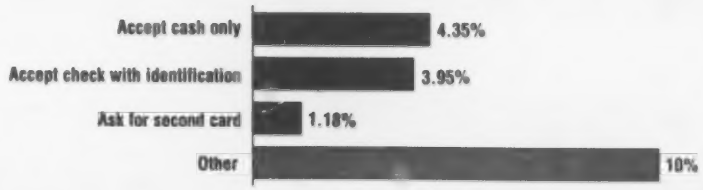
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION/PROCESSING TIME IN SECONDS



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



GENERAL MERCHANDISE/MASS MERCHANTS

One-half of these companies describe third-party credit card processors as "very effective," or "somewhat effective" in assisting their company in identifying third-party chargebacks that may be fraudulent.

Visa and MasterCard discount rates equaled the industry average of 1.5% while Discover averaged 1.7%.

Marketing: General merchandise/mass merchants offering their own credit card utilize billing stuffers, promotional mailings, "merchandise for credit customers only" and more lenient credit terms during holiday seasons, twice as often as coupons, frequent-shoppers programs, future promotions information and seasonal advertising books. Three of these retailers indicated that they intend to implement coupon programs, future promotions information, seasonal advertising books or frequent-shopper programs.

Demographic information for target marketing and cooperative advertising were mentioned ahead of customer profiles and mailing stuffers as services these retailers would most prefer to receive from their third-party credit providers.

Credit Technology: While two-thirds of the general merchandise/mass merchants are already authorizing credit at the point-of-sale, the remaining retailers are planning to implement this technology.

Once again, customer service was the primary reason for implementing credit technology, followed by efforts to reduce payroll expenses, increase productivity at the cash register, eliminate bad-credit authorizations, decrease clerical errors and improve cash flow in order of preference.

Credit authorization processing time for third-party credit cards averaged 17 seconds. A full three-quarters of these companies reported authorization processing times for third-party credit cards within five to 20 seconds. An insufficient number of companies reported processing times for their own credit card.

Emerging Trends: General merchandise/mass merchants as a group reported no interest in smart cards, self-checkout and artificial intelligence. In addition, none of these companies presently use smart shopper programs, EDI in the credit function, cash backs on credit sales, or autodial collection systems.

In each case, however, there was interest in one or more of these techniques within the next 12 to 18 months. A quarter of the companies intend to implement credit securitization. Twenty-five percent of the companies use scanning, with a similar number intending to implement it in the near future.

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	66.67%	0%	33.33%
Third-party processors	100	0	0
Service bureau	0	0	100

DOES THE COMPANY OFFER . . .

	Yes	No
Instant credit upon receipt of application	16.67%	83.33%
Incentives to new credit applicants	20	80
A discount to cash customers	0	100
"Cash only" registers	20	80
In-store third-party credit applications	40	60
In-store automatic teller machines	25	75

AVERAGE SALES TRANSACTION

HOME CENTERS

Nine home center operations participated in the Arthur Andersen/Chain *Store Age Executive* Survey of Retail Credit Trends. The participating companies are headquartered in the West, the Southeast, the Midwest and the Northeast. The majority of these companies are privately held.

One participant reports sales in excess of $1 billion, two companies report sales in the $200 million to $999 million range, five report sales between $50 million to $200 million and one participant reports sales under $50 million.

More than 40% of the home center participants report using private-label credit cards, while 66% offer either their own card or private label. All of home centers accept third-party credit cards in their stores, and 100% of these respondents accept MasterCard, Visa and Discover.

Sales Trends: While 56% of the home center operations expect comparable store sales to increase, the rest predict sales will remain level with the prior year's sales. The same percentage expect credit sales as a percentage of total sales to increase, and none of these participants expect a decline.

The average cash transaction between 1989 and 1990 declined 6% to $25, while the average credit transaction rose 3% to $69. The average personal check transaction declined 3% to $60.

At present, credit sales are not a significant portion of total sales for home center retailers. They are currently less than 20% of total sales. The home centers that offer a company credit card, including private label, report 1990 credit sales to be 18% of total sales, which equal sales in 1989.

Cost of Credit: For home centers, the cost of credit operations as a percentage of total sales averages 0.8%. For retailers offering their own credit card, credit costs average 0.3% of total sales. Bad debt expense represented 8.5% of total credit costs, account collection 20%, account servicing 15%, credit management 15%, with other categories equally reported.

One-third of the home center retailers report credit card chargebacks to be increasing, while another third report them decreasing and the remainder don't know. Two-thirds of these companies do not monitor chargebacks by customers and 56% reported experiencing third-party credit fraud.

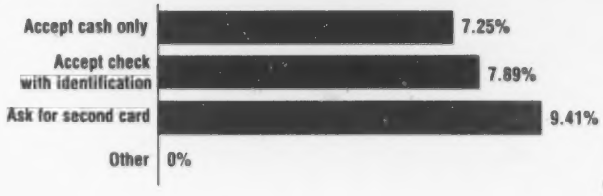
While 14% of home center retailers describe third-party credit card processors as "very effective," 43% say they are "somewhat effective" and 43% say they are "not effective at all" in assisting their companies to identify excessive or fraudulent third-party chargebacks.

Third-party credit card costs represent 0.4% of total company sales for home centers and 1.9% of their credit sales. The average

IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?

AVERAGE CREDIT AUTHORIZATION PROCESSING TIME

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED

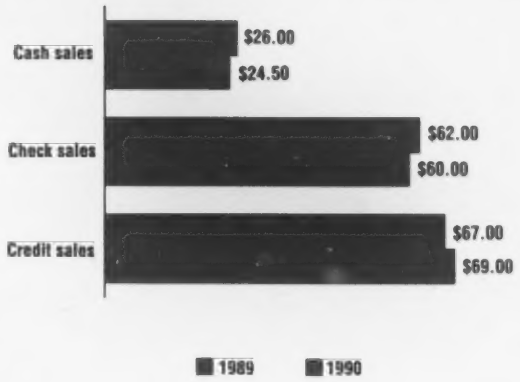


HOME CENTERS

DOES THE COMPANY OFFER . . .	Yes	No
Instant credit upon receipt of application	44.44%	55.56%
Incentives to new credit applicants	33.33	66.67
A discount to cash customers	22.22	77.78
"Cash only" registers	11.11	88.89
In-store third-party credit applications	55.56	44.44
In-store automatic teller machines	0	100

THIRD-PARTY CREDIT PROCESSING METHODS	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	87.5%	0%	12.5%
Third-party processors	40	0	60
Service bureau	40	0	60

AVERAGE SALES TRANSACTION



discount rate is reported to be 1.8%, with a low rate of 1.6% and a high of 2.4%. While 75% of the participants report the discount rate between 1.6% to 1.8%, the average private-label discount rate was 2.1%.

Marketing: More than 67% of the home center retailers report using billing stuffers, 48% use promotional mailings and 40% use coupons. Approximately one-third reported using "merchandise for credit customers only." None of the participants offered more lenient credit terms during certain seasons.

Home centers prefer demographic information for target marketing over customer profiles. Cooperative advertising ranked third ahead of mailing stuffers as the services they would like to receive most from third-party credit cards.

Credit Technology: Almost 90% of the home centers report that they perform credit authorization at the point-of-sale, and those who do not, report that they plan to do so in the near future.

Home centers report that they have implemented or would implement credit technology primarily to eliminate bad-credit situations. Customer service was ranked behind improving cash float. Other reasons, in their order of importance, were to decrease clerical errors, to increase register productivity, to gain a competitive advantage and to reduce payroll expenses.

Home centers were the only retailers surveyed that did not rank customer service as the primary reason for implementing credit-authorization technology.

Average credit authorization processing times at the register were reported to be 21.5 seconds for third-party cards and 15 seconds for company cards, both of which are higher than the overall survey average.

While 75% of home centers report processing times for third-party cards within a range of 11 to 37.5 seconds, their own cards can be processed within a range of 4 to 23 seconds.

Emerging Trends: Home center operations as a group report no interest in debit cards, credit securitization, cash back on credit sales, self-checkout and artificial intelligence. More than 65% of these companies have installed automated credit-authorization systems, and an additional 22% indicate they plan to. One-third have installed scanning, and an additional one-third plan to install it within the next 12 to 18 months.

Additionally, at least one participant indicates intentions to implement smart cards, smart shopper programs, EDI in the credit function, autodial collection systems and VIP customer cards. Fourteen percent of the home center retailers indicate that they plan to install automated-teller machines in their stores.

CONVENIENCE STORES

Convenience stores responding to the Arthur Andersen/*Chain Store Age Executive* Survey range from those with annual revenues less than $50 million to over $1 billion. More than 75% of the respondents report annual revenues of less than $200 million.

This category includes foodmarts, drugstores and general market stores, as well as large convenience store chains. The majority of the respondents are from the Southwest region of the United States and are privately held companies.

Approximately 40% of the respondents offer their own credit to their customers, normally 30-day accounts. All of the convenience stores accept third-party cards.

Sales Trends: The convenience stores responding to the survey are extremely optimistic as a group about trends in credit sales and comparable store sales compared to prior years.

More than three-quarters of the respondents project their percentage of credit sales to total sales will increase over the prior year. Further, 85% of these respondents expect comparable store sales to increase, while approximately 15% expect comparable sales to remain the same and/or decrease.

The average cash transaction increased approximately 4% to $12 from $11. However, personal check and credit transactions remained the same between 1989 and 1990 at approximately $25 per transaction.

Credit transactions comprised 10% of total sales, which was consistent with the prior year. Most convenience store operations accept three major third-party cards for payment. However, revolving accounts are not offered nor are installment accounts. Private-label cards are not mentioned by the respondents as credit vehicles for payment.

Cost of Credit: For these retailers, the cost of credit card operations as a percentage of sales averages 0.3% of sales and 3% of credit sales. These respondents did not specify the credit operation costs related to managing their 30-day accounts as compared to third-party cards.

In total, account collection represents one-quarter of the total credit costs with data processing (20%), bad-debt expense (17.5%), management of credit (15%). The remainder is spread among in-store credit and other.

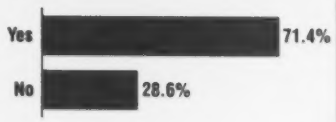
While 40% of the respondents acknowledge an increase in credit chargebacks, 20% didn't know and 40% indicate decreases.

More than 64% of the convenience stores indicate that they believe their processors are effective in monitoring third-party credit chargebacks. In addition, 88% of the respondents believe that the third parties are effective in identifying third-party chargebacks that may have been fraudulent.

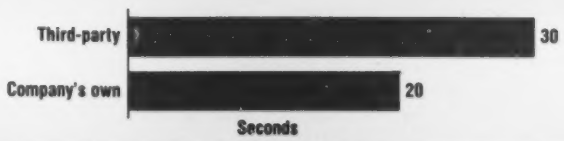
Finally, 36% of the respondents indicate that they have experienced third-party credit fraud. This percentage is less than the overall averages reported in the survey.

The average discount rate is reported to be 2.8%, which is

IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED

CONVENIENCE STORES

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	55.56%	11.11%	33.33%
Third-party processors	63.64	18.18	18.18
Service bureau	0	14.29	85.71

DOES THE COMPANY OFFER . . .

	Yes	No
Instant credit upon receipt of application	10%	90%
Incentives to new credit applicants	0	100
A discount to cash customers	0	100
"Cash only" registers	0	100
In-store third-party credit applications	81.82	18.18
In-store automatic teller machines	16.67	83.33

slightly lower than the average rate charged by MasterCard and Visa. The range of the discount rate is 2.5% to 3.3%.

Marketing: Because the convenience retailers in this segment do not use their own credit cards, they do not utilize future promotions information, frequent shopper programs and/or coupons in their marketing. Further, none of these retailers uses "merchandise for credit customers only," or offers more lenient credit terms during specific seasons to increase sales.

Convenience retailers prefer cooperative advertising (highest rank of preference) customer profiles, mail stuffers and demographic information as services they like to receive from third-party credit providers.

Credit Technology: While 77% of the respondents perform credit authorization at the point-of-sale, the remaining respondents plan to do so in the near future. These retailers implement credit-authorization technology primarily to improve customer service and decrease clerical errors at point-of-sale and in back office locations.

Further reasons for implementating primarily relate to reducing bad-credit situations, increasing POS register throughput and reducing expenses.

The average credit authorization processing time at the register for third-party credit cards was 25 seconds, with three-quarters of the respondents falling within a range of 10 seconds to 30 seconds.

Emerging Trends: Convenience retailers in this group express high levels of interest in further automated authorization and scanning techniques. Approximately 60% of the respondents indicate that they are using automated authorization technology, and an additional 16% intend to use this technology in the next 12 to 18 months.

Similarly, one-third of the respondents currently use scanning with an additional 16% intending to implement within the next 18 months.

Approximately 25% of the respondents indicate that they expect to add more ATM's in the next 12 to 18 months. Similarly, debit cards are expected to increase during this period as approximately 23% of the respondents indicate plans to implement them within the next 12 to 18 months.

Most of the respondents were not interested in smart-shopper programs, cash back on credit sales (because convenience stores to not use company-credit cards), self-checkout or artificial intelligence.

Fewer than half the respondents report that they expect discount rates for third-party credit cards to increase; 23% expect a decrease; and 31% don't know. (See "What You Should Know About Banking in the Credit Card Arena" page 11). Only 8% were certain they would pass such an increase on to the customers, while 69% say they would not and 23% don't know.

MasterCard and Visa are accepted by all of these participants and are rated as preferable in the categories of service, cost and float value over the other third-party cards this group accepts.

AVERAGE SALES TRANSACTION

SUPERMARKETS

IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?

More than 15 of the respondents to the Arthur Andersen/*Chain Store Age Executive* Survey identify themselves as supermarkets. Approximately 18% of these retailers boast revenues in the $1 billion or more category. Fewer than half, 41%, had sales in the $50 million-$200 million range, and 29% in the $50 million or less category. The remainder of the respondents report sales in the $200-$999 million range. The majority of these retailers are privately held companies.

Approximately 43% of these respondents report that they accepted third-party credit cards, while none of these participants offer their own credit card or a private label card to customers.

Generally, there were an insufficient number of responses to many questions in the survey to draw conclusions about credit costs and technology.

Sales Trends: These supermarket retailers are markedly optimistic in their expectations for sales. While 64% of these respondents project increasing comparable store sales, 29% expect same store sales to remain unchanged from 1989. Only 7% of this group expect a decline in comparable store sales.

Approximately half of the retailers who accept credit cards expect credit sales to increase as a percentage of their total sales. The remaining half expect credit sales to remain the same.

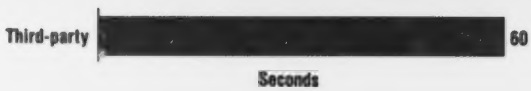
Marketing: Supermarket retailers indicate that they value receiving customer profiles, demographic information for target marketing and cooperative advertising from third-party credit providers. There is an insufficient response rate from supermarket retailers with their own credit cards to draw any conclusions about marketing techniques.

Emerging Trends: Retailers in this group express surprisingly little interest in smart cards, EDI in the credit function, VIP customer cards, self-checkout and other technologies. Approximately 64% of this group report that they scan, and another 14% intend to implement scanning within the next 12 to 18 months.

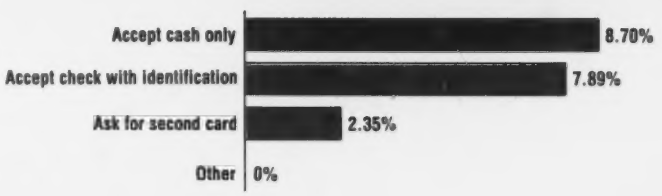
Fewer than half indicate that they use or intend to implement automated authorization systems. And of these, 31% report having smart-shopper programs, and 46% indicate that they have automatic teller machines in store locations.

While 18% report that they expect discount rates for third-party credit cards to increase, an additional 18% expect a decrease, and 64% report not knowing. (See "What You Should Know About Banking in the Credit Card Arena" page 11). Only 10% are certain they would pass such an increase on to their customers, while 50% say they would not and 40% don't know. MasterCard and Visa are accepted by 43% of these participants.

AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	62.5%	0%	37.5%
Third-party processors	28.57	0	71.43
Service bureau	0	0	100

APPENDIX

AVERAGE SALES TRANSACTIONS $

	PARTICIPANTS BY TYPE OF RETAILER															
	Convenience stores		Department stores		Discount stores		Mass merchants		Home centers		Specialty/ apparel		Specialty/ non-apparel		Supermarkets	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Cash	15.50	12.50	26.00	24.00	19.93	20.00	22.50	22.50	24.50	26.00	43.00	41.00	30.00	30.00	10.00	10.00
Check	25.00	25.00	40.00	39.95	35.00	39.41	51.50	50.50	60.00	62.00	47.00	45.00	40.00	39.00	17.00	16.00
Credit	21.50	21.00	46.00	42.00	39.00	39.00	56.00	54.50	69.00	67.00	61.00	59.00	60.00	50.00	35.33	32.79

AVERAGE COST OF CREDIT ACTIVITIES AS PERCENT OF TOTAL CREDIT COSTS

	PARTICIPANTS BY TYPE OF RETAILER								PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS			
	Conv Store	Dept Store	Discount Store	Mass Merchant	Home Center	Spec/ Apparel	Spec/Non-Apparel	Super-market	$0-$50	$50-$200	$200-$999	$1,000 or more
New accounts	90.00	6.30	6.00	2.00	6.00	19.00	12.00	0.00	10.00	7.50	14.45	5.00
Accounting servicing	15.00	8.00	55.00	8.50	15.00	15.00	10.00	0.00	10.00	21.00	9.00	11.00
Account collection	20.00	8.00	5.00	0.05	20.00	9.00	22.00	0.00	10.00	19.00	6.70	11.00
In-store credit	5.00	3.55	10.00	0.00	5.00	2.00	5.00	0.00	7.50	2.00	4.25	9.40
Data processing for credit	12.50	11.30	9.00	6.51	5.00	6.00	10.00	100.00	15.00	6.00	5.60	10.00
Management of credit	10.00	7.50	8.50	1.92	15.00	6.00	5.00	0.00	10.00	7.00	5.30	9.00
Bad-debt expense	30.00	16.10	46.00	11.01	8.50	13.50	10.00	0.00	10.50	16.00	11.05	40.80

APPENDIX

CREDIT AUTHORIZATION TECHNIQUES

PERCENT PARTICIPANTS BY TYPE OF RETAILER

	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Dial service bureau&read number	40.00	0.00	60.00	30.00	0.00	70.00	9.09	0.00	90.91	25.00	25.00	50.00
Dial service bureau&use touchtone key pad	22.22	0.00	77.78	36.36	9.09	54.55	16.67	0.00	83.33	25.00	25.00	50.00
Magnetic swipe reader (separate from POS terminal)	63.64	18.18	18.18	33.33	0.00	66.67	53.85	0.00	46.15	40.00	20.00	40.00
Magnetic swipe reader as part of POS terminal	44.44	22.22	33.33	75.00	25.00	0.00	78.57	7.14	14.29	40.00	20.00	40.00
Manually read "bad number" report	11.11	0.00	88.89	12.50	0.00	87.50	0.00	0.00	100.00	20.00	0.00	80.00
Dial-up leased lines	11.11	11.11	77.78	22.22	0.00	77.78	18.18	0.00	81.82	25.00	0.00	75.00
Satellite communications (VSAT)	11.11	0.00	88.89	14.29	0.00	85.71	0.00	10.00	90.00	20.00	0.00	80.00
None	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	100.00

APPENDIX

	HOME CENTER			SPECIALITY/ APPAREL			SPECIALITY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	12.50	0.00	87.50	0.00	0.00	100.00	22.58	0.00	77.42	37.50	0.00	6.25
	12.50	0.00	87.50	0.00	0.00	100.00	13.33	6.67	80.00	25.00	0.00	75.00
	75.00	0.00	25.00	91.30	0.00	8.70	75.68	2.70	21.62	44.44	0.00	55.56
	50.00	50.00	0.00	33.33	57.14	9.52	18.75	50.00	31.25	0.00	62.50	37.50
	0.00	0.00	100.00	5.56	0.00	94.44	20.69	0.00	79.31	25.00	0.00	75.00
	0.00	25.00	75.00	5.56	0.00	94.44	3.7	7.41	88.89	14.29	0.00	85.71
	12.50	25.00	62.50	0.00	5.25	94.74	3.45	3.45	93.10	0.00	0.00	100.00
	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	100.00	16.67	0.00	83.33

CREDIT AUTHORIZATION TECHNIQUES

	PERCENT PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Dial service bureau & read number	28.57	2.38	69.05	29.17	0.00	70.83	8.70	0.00	91.30	7.69	0.00	92.31
Dial service bureau & use touchtone key pad	20.00	7.50	72.05	24.00	4.00	72.00	12.50	0.00	87.50	0.00	0.00	100.00
Magnetic swipe reader (separate from POS terminal)	72.34	4.26	23.40	76.47	2.94	20.59	69.23	0.00	30.77	21.43	7.14	71.43
Magnetic swipe reader as part of POS terminal	25.00	37.50	37.50	40.00	50.00	10.00	44.44	48.15	7.41	66.67	13.33	20.00
Manually read "bad number" report	12.82	0.00	87.18	13.64	0.00	86.36	12.50	0.00	87.50	7.14	0.00	92.86
Dial-up leased lines	2.63	2.63	94.74	9.52	4.76	85.71	21.74	13.04	65.22	14.29	0.00	85.71
Satellite communications (VSAT)	0.00	2.63	97.37	4.35	8.70	86.96	4.17	4.17	91.67	27.27	9.09	63.64
None	5.00	0.00	95.00	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	100.00

APPENDIX

TYPE OF CREDIT OFFERED

PERCENT PARTICIPANTS BY TYPE OF RETAILER

	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS
Company's own 30-day credit	23.08	0.00	76.92	33.33	0.00	66.67	14.29	0.00	85.71	28.57	0.00	71.43
Revolving account	0.00	0.00	100.00	89.47	0.00	10.53	13.33	0.00	86.67	16.67	0.00	83.33
Installment account	0.00	0.00	100.00	72.22	0.00	27.78	12.50	6.25	81.25	16.67	0.00	83.33
Private label	9.09	9.09	81.82	9.09	0.00	90.91	15.38	7.69	76.92	0.00	16.67	83.33
Third-party American Express	28.57	14.29	57.14	85.00	0.00	15.00	50.00	0.00	50.00	16.67	0.00	83.33
Diners Club	0.00	0.00	100.00	5.88	0.00	94.12	8.33	0.00	91.67	0.00	0.00	100.00
Discover	57.14	14.29	28.57	27.78	5.56	66.67	91.67	0.00	8.33	83.33	0.00	16.67
MasterCard	85.71	14.29	0.00	95.24	0.00	4.76	100.00	0.00	0.00	83.33	0.00	16.67
Optima	7.14	7.14	85.71	68.75	0.00	31.25	33.33	0.00	66.67	16.67	0.00	83.33
Visa	85.71	14.29	0.00	95.24	0.00	4.76	100.00	0.00	0.00	83.33	0.00	16.67

MARKETING TECHNIQUES USED WITH COMPANY-OWNED CREDIT CARDS

PERCENT BY TYPE OF RETAILER

	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Billing stuffers	0.00	0.00	100.00	100.00	0.00	0.00	66.67	0.00	33.33	66.67	0.00	33.33
Promotional mailings	0.00	0.00	100.00	100.00	0.00	0.00	50.00	0.00	50.00	66.67	0.00	33.33
Coupons	0.00	0.00	100.00	94.12	0.00	5.88	66.67	0.00	33.33	33.33	33.33	33.33
Frequent shopper programs	0.00	0.00	100.00	53.33	33.33	13.33	33.33	16.67	50.00	33.33	33.33	33.33
Future promotions information	0.00	0.00	100.00	81.25	12.50	6.25	50.00	0.00	50.00	33.33	33.33	33.33
Seasonal ad books	0.00	0.00	100.00	68.75	6.25	25.00	40.00	0.00	60.00	33.33	33.33	33.33
Merchandise for credit customers only	0.00	0.00	100.00	56.25	6.25	37.50	33.33	0.00	66.67	66.67	0.00	33.33
More lenient credit terms during specific season	0.00	0.00	100.00	53.85	7.69	38.46	50.00	0.00	50.00	66.67	0.00	33.33

APPENDIX

	HOME CENTER			SPECIALITY/ APPAREL			SPECIALITY/NON-APPAREL			SUPERMARKET		
	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS
	66.67	0.00	33.33	9.09	4.55	86.36	35.14	5.41	59.46	0.00	7.69	92.31
	33.33	0.00	66.67	22.73	9.09	68.18	25.71	8.57	65.71	0.00	0.00	100
	11.11	22.22	66.67	9.09	0.00	90.91	13.89	8.33	77.78	0.00	0.00	100
	62.50	0.00	37.50	11.76	11.76	76.47	31.03	6.9	62.07	0.00	0.00	100
	57.14	14.29	28.57	91.67	0.00	8.33	75.00	2.5	22.5	0.00	8.33	91.67
	0.00	0.00	100.00	9.09	0.00	90.91	13.50	5.41	81.08	0.00	0.00	100.00
	100.00	0.00	0.00	54.55	22.73	22.73	59.52	11.90	28.57	15.38	15.38	69.23
	100.00	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	42.86	14.29	42.86
	37.50	25.00	37.50	61.90	0.00	38.10	51.35	5.41	43.24	0.00	8.33	91.67
	100.00	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	42.86	14.29	42.86

	HOME CENTER			SPECIALITY/ APPAREL			SPECIALITY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	85.71	14.29	0.00	60.00	0.00	40.00	60.00	0.00	40.00	0.00	0.00	100.00
	71.43	14.29	14.29	70.00	10.00	20.00	53.33	0.00	46.67	0.00	0.00	100.00
	66.67	33.33	0.00	50.00	10.00	40.00	33.33	6.67	60.00	0.00	0.00	100.00
	33.33	33.33	33.30	0.00	55.56	44.44	20.00	20.00	60.00	0.00	0.00	100.00
	33.33	33.33	33.33	40.00	30.00	30.00	40.00	6.67	53.33	0.00	0.00	100.00
	28.57	42.86	28.57	44.44	11.11	44.44	21.43	7.14	71.43	0.00	0.00	100.00
	50.00	16.67	33.33	22.22	0.00	77.78	7.14	14.29	78.57	0.00	0.00	100.00
	0.00	50.00	50.00	33.33	11.11	55.56	26.67	6.67	66.67	0.00	0.00	100.00

APPENDIX

EMERGING RETAIL ISSUES

PERCENT PARTICIPANTS BY TYPE OF RETAILER

	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Debit cards	7.14	21.43	71.43	10.00	0.00	90.00	7.14	0.00	92.86	16.67	16.67	66.67
Smart cards	0.00	0.00	100.00	0.00	5.00	95.00	0.00	0.00	100.00	0.00	0.00	100.00
ATM machines in store locations	15.38	23.08	61.54	15.00	0.00	85.00	23.08	0.00	76.92	16.67	16.67	66.67
Smart shopper program	0.00	0.00	100.00	10.53	5.26	84.21	0.00	16.67	83.33	16.67	16.67	83.33
Credit securitization	15.38	0.00	84.62	25.00	15.00	60.00	0.00	8.33	91.67	16.67	50.00	33.33
EDI in credit function	7.69	15.38	76.92	30.00	0.00	70.00	7.14	7.14	85.71	0.00	16.67	83.33
Cash back on credit sales	0.00	0.00	100.00	10.00	0.00	90.00	0.00	0.00	100.00	0.00	16.67	83.33
Self-checkout	0.00	0.00	100.00	0.00	0.00	100.00	0.00	14.29	85.71	0.00	0.00	100.00
Scanning	30.77	15.38	53.85	40.00	25.00	35.00	60.00	26.67	13.33	33.33	33.33	33.33
Automated authorization	53.85	15.38	30.77	66.67	4.76	28.57	93.33	6.67	0.00	33.33	50.00	16.67
Autodial collection systems	7.69	0.00	92.31	25.00	15.00	60.00	8.33	8.33	83.33	0.00	33.33	66.67
Artificial intelligence	0.00	0.00	100.00	15.00	10.00	75.00	0.00	25.00	75.00	0.00	0.00	100.00
VIP customers	7.14	0.00	92.86	30.00	10.00	60.00	20.00	20.00	60.00	16.67	33.33	50.00

APPENDIX

	HOME CENTER			SPECIALITY/ APPAREL			SPECIALITY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	0.00	0.00	100.00	8.33	4.17	87.50	9.76	9.76	80.49	15.38	30.77	53.85
	0.00	12.50	87.50	0.00	0.00	100.00	2.56	0.00	97.44	0.00	7.69	92.31
	0.00	25.00	75.00	0.00	0.00	100.00	0.00	0.00	100.00	46.15	7.69	46.15
	0.00	12.50	87.50	0.00	8.33	91.67	0.00	97.44	30.77	30.77	7.69	61.54
	0.00	0.00	100.00	0.00	9.09	90.91	5.13	7.69	87.18	0.00	18.18	81.82
	62.50	12.50	62.50	17.39	4.35	78.26	10.00	7.50	82.50	0.00	0.09	90.91
	2.50	0.00	100.00	4.17	0.00	95.83	0.00	0.00	100.00	0.00	7.69	92.31
	0.00	0.00	100.00	0.00	0.00	100.00	2.50	0.00	97.50	9.09	0.00	90.91
	37.50	37.50	25.00	20.83	20.83	58.33	21.95	26.83	51.22	64.29	14.29	21.43
	25.00	25.00	12.50	54.17	16.67	29.17	53.66	7.32	39.02	30.77	15.38	53.85
	12.50	12.50	62.50	8.33	4.17	87.50	10.00	2.50	87.50	0.00	0.00	100.00
	0.00	0.00	100.00	0.00	0.00	100.00	0.00	5.13	94.87	0.00	8.33	91.67
	11.11	11.11	77.78	4.17	8.33	87.50	5.00	20.00	75.00	7.69	15.38	76.92

EMERGING RETAIL ISSUES

	PERCENT PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Debit cards	7.55	5.66	86.79	4.88	9.76	85.37	8.82	11.76	79.41	26.67	13.33	60.00
Smart cards	0.00	0.00	100.00	2.50	2.50	95.00	0.00	3.13	96.88	0.00	6.67	93.33
ATM machines in store locations	0.00	3.85	96.15	12.82	7.69	79.49	14.71	5.88	79.41	33.33	0.00	66.67
Smart shopper program	0.00	5.66	94.34	0.00	10.00	90.00	9.38	6.25	84.38	25.00	0.00	75.00
Credit securitization	6.00	8.00	86.00	2.56	2.56	94.87	15.63	21.88	62.50	7.69	15.38	76.92
EDI in credit function	5.66	1.89	92.45	5.26	7.89	86.84	30.30	15.15	54.55	21.43	7.14	71.43
Cash back on credit sales	5.66	0.00	94.34	0.00	0.00	100.00	0.00	3.03	96.97	0.00	6.67	93.33
Self-checkout	0.00	0.00	100.00	2.63	0.00	97.37	0.00	3.03	96.97	7.14	7.14	85.71
Scanning	22.22	24.07	53.70	24.39	26.83	48.78	44.12	29.41	26.47	86.67	0.00	13.33
Automated authorization	42.59	7.41	50.00	51.22	19.51	29.27	75.76	15.15	9.09	86.67	6.67	6.67
Autodial collection systems	3.85	3.85	92.31	5.13	2.56	92.31	25.00	15.63	59.38	26.67	6.67	66.67
Artificial intelligence	0.00	0.00	100.00	2.56	2.56	94.87	0.00	16.13	83.87	13.33	13.33	73.33
VIP customers	9.26	12.96	77.78	5.00	15.00	80.00	20.00	14.29	65.71	13.33	20.00	66.67

APPENDIX

WHY DID OR WOULD THE COMPANY IMPLEMENT CREDIT AUTHORIZATION TECHNOLOGY?

BY TYPE OF RETAILER

	RANK ORDER*							
	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty/ apparel	Specialty/ non-apparel	Super-markets
Eliminate the bad credit situations experience prior to implementation	3	2	3	2	2	3	2	3
Increase POS' register throughput	6	5	2	3.5	5	5	6	4
Improve the company's cash-float position	4	6	4	7	4	2	3	1
Decrease clerical errors both at POS and back-office locations	2	3	5	6	3	4	4	6
Reduce expenses, primarily payroll	5	7	6	1	7	6	7	7
Gain a competitive edge from credit authorization technology	7	4	7	5	6	7	5	5
Improve customer service	1	1	1	3.5	1	1	1	2

*1 = most preferred

SERVICES IN ORDER OF PREFERENCE

PARTICIPANTS BY 1990 SALES VOLUME $MILLIONS

	RANK ORDER*			
	$0-$50	$50-$200	$200-$999	$1,000 or more
Customer profiles	1	2	3	3
Demographic information for target marketing	2	1	2	1
Cooperative advertising	3	3	1	2
Mailing stuffers	4	4	4	4

*1 = Most preferred

SERVICES IN ORDER OF PREFERENCE BY TYPE OF RETAILER

	RANK ORDER*							
	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty apparel	Specialty non-apparel	Supermarkets
Customer profile	2	3	3	3.5	3	1	2	1.5
Demographic information for target marketing	4	1	2	1.5	1	2	1	1.5
Cooperative advertising	1	2	1	1.5	2	3	3	3
Mailing stuffers	3	4	4	3.5	4	4	4	4

*1 = Most preferred